



MARION
HEALTH

FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

CPAs / ADVISORS



MARION HEALTH

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Marion General Hospital, Inc. dba Marion Health
Marion, Indiana

Opinion

We have audited the accompanying financial statements of Marion General Hospital, Inc. dba Marion Health (the Hospital), which comprise the balance sheets as of June 30, 2024 and 2023, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2024 and 2023, 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Board of Directors
Marion General Hospital, Inc. dba Marion Health
Marion, Indiana

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

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

Blue & Co., LLC

Indianapolis, Indiana
October 16, 2024

MARION HEALTH

BALANCE SHEETS JUNE 30, 2024 AND 2023

ASSETS

	<u>2024</u>	<u>2023</u>
Current assets		
Cash	\$ 14,258,388	\$ 10,887,199
Current portion of trustee funds	6,485,382	9,821,032
Account receivable		
Patient services	23,667,981	20,764,292
Physician services	2,679,401	1,783,332
Other	1,068,244	1,433,467
Estimated third-party settlements	-0-	467,709
Accrued interest	123,103	116,187
Inventories	2,126,143	2,097,130
Current portion of notes receivable	751,172	761,455
Prepaid expenses	3,762,002	3,923,142
Total current assets	<u>54,921,816</u>	<u>52,054,945</u>
Assets limited as to use		
Board designated funds	298,913,020	290,624,170
Trustee held	8,102,657	11,742,720
Total assets limited as to use	<u>307,015,677</u>	<u>302,366,890</u>
Property and equipment, net	161,751,337	156,150,047
Other assets		
Investment in joint venture	1,535,142	1,695,171
Notes receivable, net of current portion	1,164,628	940,064
Lease right-of-use assets, net	2,051,897	3,050,135
Goodwill and other intangible assets, net	1,555,298	1,892,578
Other	3,456,438	3,378,853
Total other assets	<u>9,763,403</u>	<u>10,956,801</u>
Total assets	<u>\$ 533,452,233</u>	<u>\$ 521,528,683</u>

See accompanying notes to financial statements.

MARION HEALTH

BALANCE SHEETS JUNE 30, 2024 AND 2023

LIABILITIES AND NET ASSETS

	<u>2024</u>	<u>2023</u>
Current liabilities		
Accounts payable	\$ 10,117,710	\$ 9,542,243
Accrued liabilities		
Salaries and related liabilities	9,342,949	7,574,837
Interest	2,008,190	2,036,516
Other	475,791	414,960
Estimated third-party settlements	5,791,158	-0-
Current portion of long-term debt	2,588,088	2,527,266
Current portion of lease liabilities	1,169,815	1,184,715
Total current liabilities	<u>31,493,701</u>	<u>23,280,537</u>
Long-term liabilities		
Long-term debt, less current portion	127,644,249	130,987,870
Lease liabilities, less current portion	904,528	1,895,082
Pension liability	10,101,579	11,321,118
Other long-term liabilities	1,299,070	1,267,497
Total long-term liabilities	<u>139,949,426</u>	<u>145,471,567</u>
 Total liabilities	 171,443,127	 168,752,104
Net assets		
Undesignated	63,096,086	62,152,409
Designated	298,913,020	290,624,170
Total net assets without donor restrictions	<u>362,009,106</u>	<u>352,776,579</u>
Total liabilities and net assets	<u>\$ 533,452,233</u>	<u>\$ 521,528,683</u>

See accompanying notes to financial statements.

MARION HEALTH

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
Revenues		
Patient service revenue	\$ 194,535,722	\$ 183,468,094
Other revenue	3,245,113	3,232,665
Total revenues	197,780,835	186,700,759
Expenses		
Salaries and wages	84,219,065	79,792,097
Employee benefits	18,293,055	19,331,337
Physician services	9,445,949	7,900,051
Professional services	15,604,285	19,461,167
Medical supplies	13,731,725	14,900,634
Drugs and IV solutions	15,612,334	13,659,842
Food	1,349,732	1,240,187
Purchased services	11,647,083	11,729,754
Rent	1,768,175	1,760,712
Plant and equipment maintenance	5,928,693	5,258,733
Utilities	2,215,136	2,386,132
Nonmedical supplies	3,579,686	5,213,360
Leased property	2,376,968	1,700,200
Other	1,624,501	1,774,223
Insurance	1,710,164	1,865,632
HAF and HIP programs	16,221,785	9,448,791
Interest	2,424,484	2,589,721
Depreciation and amortization	9,669,217	10,233,073
Total expenses	217,422,037	210,245,646
Operating loss	(19,641,202)	(23,544,887)
Nonoperating revenue (expense)		
Investment return and other, net	29,634,134	24,660,575
Net periodic pension cost	(1,774,658)	(2,189,422)
Contributions, gifts, and bequests	20,056	15,391
Revenues over (under) expenses	8,238,330	(1,058,343)
Other changes		
Pension related changes other than net periodic pension cost	994,197	2,298,970
Change in net assets	9,232,527	1,240,627
Net assets		
Beginning of year	352,776,579	351,535,952
End of year	\$ 362,009,106	\$ 352,776,579

See accompanying notes to financial statements.

MARION HEALTH

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
Operating activities		
Change in net assets	\$ 9,232,527	\$ 1,240,627
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	9,669,217	10,233,073
Amortization of debt issuance costs and premium	(755,533)	(677,692)
Forgiveness of notes receivable	1,395,232	1,434,228
Gain on disposal of property and equipment	(268,432)	(98,472)
Unrealized (gain) loss on investments	(4,281,949)	2,315,123
Realized gain on sale of investments	(18,198,104)	(16,801,862)
(Gain) loss on equity in joint ventures	160,028	(410,992)
Changes in operating assets and liabilities:		
Accounts receivable	(3,799,758)	3,615,577
Accrued interest, inventories, prepaid expenses, and other current assets	490,434	(938,458)
Right-of-use assets under operating leases	998,238	1,385,391
Other long-term assets	(314,445)	400,785
Pension liability	(1,219,539)	(2,109,548)
Accounts payable and accrued liabilities	(2,727,506)	(16,881,577)
Estimated third-party settlements	6,258,867	(3,090,513)
Operating lease liabilities	(655,079)	(985,146)
Net cash flows from operating activities	(4,015,802)	(21,369,456)
Investing activities		
Additions to property and equipment	(9,404,578)	(50,509,320)
Proceeds from the sale of property and equipment	271,835	100,552
Proceeds from the sale or maturity of investments	29,086,267	53,179,035
Purchases of investments	(8,079,379)	(5,238,119)
Dividends received from joint ventures	-0-	302,037
Advances on notes receivable	(1,668,466)	(1,449,700)
Payments received on notes receivable	58,953	34,428
Net cash flows from investing activities	10,264,632	(3,581,087)
Financing activities		
Repayments of long-term debt	(2,527,266)	(2,547,909)
Payments on finance leases	(350,375)	(399,703)
Net cash flows from financing activities	(2,877,641)	(2,947,612)
Net change in cash	3,371,189	(27,898,155)
Cash		
Beginning of year	10,887,199	38,785,354
End of year	\$ 14,258,388	\$ 10,887,199
Supplemental cash flows information		
Interest paid, net of amounts capitalized of approximately \$1,887,000 and \$1,593,000 in 2024 and 2023, respectively	\$ 3,208,342	\$ 3,223,069
Property and equipment included in accounts payable	\$ 5,135,163	\$ 3,724,287

See accompanying notes to financial statements.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Marion General Hospital, Inc. dba Marion Health (the Hospital), a not-for-profit corporation, provides inpatient and outpatient services primarily to residents from Grant County and surrounding areas. The Hospital operates an acute care general hospital with 95 acute care beds, 20 nursery beds, and 18 inpatient acute rehabilitation beds. The Hospital was formed in 1902 and is located in Marion, Indiana.

Basis of Accounting

The Hospital prepares its financial statements using the accrual basis of accounting. Accrual accounting requires the recognition of revenues as performance obligations are satisfied and measurable in the accounting period when services are provided, and the recognition of expenses in the period in which they occur.

Use of Estimates

The preparation of 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 settlements, defined pension plan obligations and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period and could differ from actual results.

Cash

The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash.

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

Patient service revenue and the related accounts receivable are recorded at the amount that reflects the consideration to which the Hospital 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 Hospital 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.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital 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 Hospital receiving inpatient acute care services or patients receiving services in our outpatient centers or in their homes. The Hospital measures the performance obligation from admission into the Hospital, 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 Hospital is fee for service. The timing of revenue and recognition for health care services is transferred over time.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in the Financial Accounting Standards Board, 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 Hospital 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 Hospital's policy, and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients. Accounts receivable for patient and physician services approximated \$26,347,000, \$22,548,000, and \$26,163,000 as of June 30, 2024 and 2023 and July 1, 2022, respectively.

Management estimates an allowance for credit losses based on historical experience, the current economic environment, and management's expectations of future economic conditions based on reasonable and supportable forecasts. The Hospital also applies adjustments for specific factors and current economic conditions, as needed, at each reporting date. Management utilizes aging schedules for estimating expected credit losses. In evaluating loss rates, accounts receivable are pooled into categories based on days past due. Significantly aged receivables are evaluated individually by credit worthiness and historical experience with the patients. Account balances are written off against the allowance when management deems the amount is uncollectible. Management has determined no allowance for credit losses is necessary as of June 30, 2024 and 2023.

Inventories

Inventories, consisting of medical supplies, are stated on the lower of weighted average cost or net realizable value.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Assets Limited as to Use

Assets limited as to use include assets set aside by the board of directors for future capital improvements and other purposes, over which the board of directors retains control and may, at its discretion, subsequently use for other purposes. Assets held by trustees under indenture agreements are also included within this caption and are classified as current assets to the extent they are to be used to pay for current liabilities. Restricted assets included assets whose use by the Hospital has been limited by donors to a specific purpose until that purpose was satisfied.

These investments are recorded at fair value in the balance sheets. Therefore, investment return and other, net includes interest, dividends, realized gains and losses, and unrealized gains and losses on investments as part of excess of expenses over revenues.

Generally, the fair value of the private equity funds (fund of funds) is based on the fair value of the underlying marketable securities determined by the individual manager of the private equity funds. 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 the investments 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 investments in the investment funds existed and the difference could be material. Private equity funds totaled approximately \$66,019,000 (21.0% of assets limited as to use) and \$59,169,000 (19.0% of assets limited as to use) as of June 30, 2024 and 2023, 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 Hospital's investments could occur in the near term and that such changes could materially affect the amounts reflected in the 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 acquisitions are recorded at cost. Property and equipment donated to the Hospital are recorded as additions to net assets with donor restrictions at their fair value at the date of receipt and as a transfer to net assets without donor restrictions when the assets are placed in service.

Depreciation is provided over the estimated useful life (or lease term, whichever is shorter) of each class of depreciable asset and is computed on the straight-line method using a half-year convention in the year of acquisition and disposal. Estimated useful lives range from 2 to 40 years depending on asset classification.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

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 Hospital 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.

Unamortized Debt Issuance Costs, Bond Premiums and Bond Discounts

The costs incurred and capitalized in issuing Hospital Revenue Bonds are classified with long-term debt and are amortized into interest expense by the bonds outstanding method over the respective term of each bond series.

The premium and discount incurred in issuing the Hospital Revenue Bonds are classified with long-term debt and are amortized into interest expense using the effective-interest method over the respective term of the debt issues.

Notes Receivable

Notes receivable are comprised of loans and advances to certain physicians, tuition advances to various employees and prospective employees, and recruitment loan advances to various employees in amounts ranging from approximately \$50 to \$139,000. These notes receivable are unsecured and mature through 2035. Notes receivable can be subject to forgiveness if certain conditions are met by the borrower.

Business Combinations, Goodwill and Other Intangible Assets

The Hospital 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 the amount assigned to identifiable intangible assets, if any. The Hospital amortizes goodwill on a straight-line basis over a period not to exceed ten years, tests for impairment upon a triggering event, and elected to test for impairment at the entity level in the case of a triggering event. Other intangible assets are amortized on a straight-line basis over a period ranging from two to seven years.

Goodwill and other intangible assets, at cost, approximated \$3,490,000 as of June 30, 2024 and 2023 with accumulated amortization of \$1,935,000 and \$1,598,000 as of June 30, 2024 and 2023, respectively. Amortization is expected to be \$311,000 in 2025 through 2029.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are available for operating purposes under the direction of the board of directors or designated by the board of directors for specific use. Net assets with donor restrictions are subject to donor stipulations for specific operating purposes or time restrictions including donor restrictions requiring the net assets to be held in perpetuity or for a specified term with investment return available for operations or specific purpose. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. There were no net assets with donor restrictions as of June 30, 2024 and 2023.

Revenues Over (Under) Expenses

The statements of operations and changes in net assets include a performance indicator, revenues over (under) expenses. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Transactions incidental to the provision of patient care services are reported as nonoperating revenue (expense). Changes in net assets without donor restrictions, which are excluded from the performance indicator, consistent with industry practice for 2024 and 2023, include pension related changes other than net periodic pension cost and 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).

Contributions

Unconditional promises to give cash and other assets to the Hospital 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 statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are included in nonoperating gains (losses) in the accompanying financial statements. The Hospital also evaluates whether a contribution is unconditional or conditional based on the absence or presence of barriers and any right of return provisions.

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for the self-insured portion of both reported claims and claims incurred but not reported and is recorded in other long-term liabilities.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Income Taxes

The Hospital is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. As such, the Hospital is generally exempt from income taxes. However, the Hospital is 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 Hospital and recognize a tax liability if the Hospital 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 Hospital, and has concluded that as of June 30, 2024 and 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Hospital filed its federal and state income tax returns for periods through June 30, 2023. 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).

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. Net assets and change in net assets were not impacted by the reclassifications.

Going Concern Evaluation

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

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements were issued which was October 16, 2024.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

2. CHANGE IN ACCOUNTING PRINCIPLE

On July 1, 2023, the Hospital adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-13, Financial Instruments – *Credit Losses (Topic 326)*, utilizing the modified retrospective approach. This ASU replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. The guidance requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The Hospital applied the guidance to financial assets measured at amortized cost (primarily patient and physician services accounts receivable and notes receivable) that existed as of July 1, 2023 (the date of initial application). The adoption of this ASU did not have a significant impact on the Hospital's financial statements.

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

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigation and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Laws and regulations concerning government programs, including Medicare and Medicaid, are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Hospital 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 Hospital'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 in 2024 or 2023. As of June 30, 2024, Medicare and Medicaid reports have been audited and final settled with the fiscal intermediary through June 30, 2020. As of June 30, 2024, the Hospital recorded a contract liability related to estimated third party settlements of approximately \$5,791,000. As of June 30, 2023, the Hospital recorded a contract asset for estimated third-party settlements of \$468,000. The balance of contract liabilities related to third party settlements as of July 1, 2022 was \$2,623,000.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital 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 2024 and 2023, adjustments were recognized due to changes in the Hospital'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 implicit price concessions.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital 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 Hospital expects to collect based on its collection history with those patients. Patients who meet the Hospital'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 Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized. The following table provides details of these factors. The composition of patient service revenue by primary payor for 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Medicare	\$ 67,578,559	\$ 63,300,597
Medicaid	38,401,804	36,267,907
Blue Cross	44,081,903	41,003,762
Commercial	42,544,910	39,727,014
Self-pay, welfare, and contract	1,928,546	3,168,814
	<u>\$ 194,535,722</u>	<u>\$ 183,468,094</u>

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

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

	2024	2023
Patient service revenue		
Inpatient services	\$ 109,363,169	\$ 103,866,980
Outpatient services	427,517,042	414,163,586
Physician practice services	41,465,060	42,367,105
Financial assistance	(7,125,832)	(8,642,086)
	571,219,439	551,755,585
Contractual adjustments	(365,054,376)	(359,713,656)
	206,165,063	192,041,929
Implicit price concessions	(11,629,341)	(8,573,835)
Patient service revenue	\$ 194,535,722	\$ 183,468,094

The Hospital grants credit without collateral to its patients, most of whom are local residents and are generally insured under third-party payor agreements. The mix of receivables as of June 30 2024 and 2023 and revenue for the years then ended from patients and third-party payors follows:

	Receivables		Revenue	
	2024	2023	2024	2023
Medicare	37%	39%	35%	35%
Medicaid	17%	14%	19%	19%
Blue Cross	11%	10%	23%	22%
Commercial	18%	20%	22%	22%
Self-pay, welfare, and contract	17%	17%	1%	2%
	100%	100%	100%	100%

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

- **Medicare.** The Hospital is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The Hospital is reimbursed for Medicare inpatient services based on a fixed price per discharge for each diagnosis related grouping and Medicare outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

- **Medicaid.** The Hospital is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. There is no cost settlement for either of the inpatient or outpatient programs.
- **Other.** The Hospital has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these arrangements is a discount from established charges and fee schedule payments.

Financial Assistance, Community Benefit and Assistance to the Uninsured

The Hospital provides care to patients regardless of their ability to pay. A patient qualifies for financial assistance based on certain established policies of the Hospital. Essentially, these policies define financial assistance as those services for which no payment is anticipated, up to 350% of Federal Poverty Income Guidelines, published by the Department of Health and Human Services and where incurred charges are considered significant when compared to the income of the patient. Because collection of amounts determined to qualify as financial assistance is not pursued, such amounts are not reported as revenue.

Financial assistance provided during 2024 and 2023, measured at established rates, was approximately \$7,126,000 and \$8,642,000, respectively. Medicaid expansion, combined with other health care reform initiatives, increased insurance coverage for patients who were previously uninsured. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The Hospital receives reimbursements from certain governmental payors to assist in the funding of financial assistance. Of the Hospital's total expenses reported during 2024 and 2023, an estimated \$2,712,000 and \$3,293,000, respectively, arose from providing services to charity patients. The estimated costs of providing financial assistance services are based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses to gross patient service revenue. The Hospital has a policy for uninsured patients with discounted rates similar to contractual payors. Uninsured self-pay discounts provided to patients were \$5,037,000 and \$4,607,000 in 2024 and 2023, respectively.

The Hospital did update its financial assistance policy during 2024 and 2023.

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

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

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates. Hospitals also fund HIP, the State's Medicaid expansion program. The payments related to the HIP Program mirror the Medicaid payments under the HAF Program but the funding includes physician, state administration, and certain non-hospital expenditures. During 2024 and 2023, the Hospital recognized HAF and HIP program expense of approximately \$16,222,000 and \$9,449,000, respectively, which resulted in increased Medicaid reimbursement. The HAF and HIP program expense is included in the statements of operations and changes in net assets as an operating expense. The Medicaid rate increases under the HAF Program are included in patient service revenue in the statements of operations and changes in net assets.

4. ASSETS LIMITED AS TO USE

Assets limited as to use include assets set aside by the Board of Directors primarily for capital improvements and funds held by trustee subject to indenture agreements. Assets limited as to use that are required for certain obligations classified as current liabilities are reported in current assets. A description and the carrying value of the assets limited as to use by the Board of Directors is as follows as of June 30, 2024 and 2023:

	2024	2023
Cash	\$ 1,504,415	\$ 5,817,419
Exchange traded funds	14,272,538	16,789,893
Mutual funds	174,412,848	168,256,607
Private equity funds	66,018,748	59,169,301
Fixed income securities	42,704,471	40,590,950
Total board designated funds	298,913,020	290,624,170
Cash held by trustee	14,588,039	21,563,752
Total assets limited as to use	\$ 313,501,059	\$ 312,187,922

The cash held by trustee includes both current and noncurrent portions and relates to the Indiana Financing Authority, Hospital revenue bonds, Series 2020A, and Series 2021A, interest, project, and issuance funds.

Investment return and other, net is comprised of the following for 2024 and 2023:

	2024	2023
Other nonoperating gains		
Investment return, net		
Interest and dividends	\$ 7,314,109	\$ 9,762,844
Net realized gain on investments	18,198,104	16,801,862
Unrealized gain (loss) on investments	4,281,949	(2,315,123)
Other		
Gain (loss) on equity in joint ventures	(160,028)	410,992
	\$ 29,634,134	\$ 24,660,575

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

5. FAIR VALUE MEASUREMENTS

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital 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 June 30, 2024 and 2023:

- *Exchange Traded Funds and Mutual Funds:* Valued at the daily closing price as reported by the fund. Exchange traded funds and mutual funds held by the Hospital are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their net asset value (NAV) and to transact at that price. The exchange traded funds and mutual funds held by the Hospital are deemed to be actively traded.
- *Debt Securities:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing the value on yields currently available on comparable securities of issuers with similar credit ratings.
- *Private Equity Funds:* 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 private equity funds 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 net asset value of the fund and, consequently, the fair value of the Hospital'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 net asset value. It is therefore reasonably possible that if the Hospital were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

The following tables set forth by level, within the hierarchy, the Hospital's assets measured at fair value on a recurring basis as of June 30, 2024 and 2023:

	June 30, 2024			
	Total	Level 1	Level 2	Level 3
Assets				
Assets limited as to use				
Exchange traded funds				
Fixed income	\$ 14,272,538	\$ 14,272,538	\$ -0-	\$ -0-
Mutual funds				
Fixed income	47,194,492	47,194,492	-0-	-0-
Global bond	18,452,571	18,452,571	-0-	-0-
International	42,849,865	42,849,865	-0-	-0-
Large cap	61,096,959	61,096,959	-0-	-0-
Natural resources	4,818,961	4,818,961	-0-	-0-
Total mutual funds	174,412,848	174,412,848	-0-	-0-
Debt securities				
Government bonds	11,416,114	-0-	11,416,114	-0-
Mortgage-backed securities	989,123	-0-	989,123	-0-
Municipal bonds	1,076,329	-0-	1,076,329	-0-
Corporate bonds	23,124,892	-0-	23,124,892	-0-
Asset-backed securities	4,102,056	-0-	4,102,056	-0-
Other	1,995,957	-0-	1,995,957	-0-
Total fixed income securities	42,704,471	-0-	42,704,471	-0-
	231,389,857	\$ 188,685,386	\$ 42,704,471	\$ -0-
Private equity funds (a)	66,018,748			
Cash	16,092,454			
	\$ 313,501,059			

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

	June 30, 2023			
	Total	Level 1	Level 2	Level 3
Assets				
Assets limited as to use				
Exchange traded funds				
Fixed income	\$ 16,789,893	\$ 16,789,893	\$ -0-	\$ -0-
Mutual funds				
Fixed income	42,386,399	42,386,399	-0-	-0-
Global bond	17,795,631	17,795,631	-0-	-0-
International	42,627,249	42,627,249	-0-	-0-
Large cap	59,763,379	59,763,379	-0-	-0-
Natural resources	5,683,949	5,683,949	-0-	-0-
Total mutual funds	168,256,607	168,256,607	-0-	-0-
Debt securities				
Government bonds	9,760,007	-0-	9,760,007	-0-
Mortgage-backed securities	1,115,666	-0-	1,115,666	-0-
Municipal bonds	2,079,388	-0-	2,079,388	-0-
Corporate bonds	22,971,687	-0-	22,971,687	-0-
Asset-backed securities	3,743,501	-0-	3,743,501	-0-
Other	920,701	-0-	920,701	-0-
Total fixed income securities	40,590,950	-0-	40,590,950	-0-
	225,637,450	<u>\$ 185,046,500</u>	<u>\$ 40,590,950</u>	<u>\$ -0-</u>
Private equity funds (a)	59,169,301			
Cash	27,381,171			
	<u>\$ 312,187,922</u>			

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

The Hospital holds investments, which are exposed to various risks such as interest rate, market, and credit risks. 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 financial statements.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Fair Value of Investments in Entities that Use NAV

The following table summarizes investments measured at fair value based on NAV per share as of June 30, 2024 and 2023.

Investment	Fair Value	
	2024	2023
Berkshire Hedged Equity SEG	\$ 8,320,444	\$ 7,442,564
Berkshire Long/Short Strategies Fund	14,270,747	5,981,598
Berkshire SP Hedged Equity Inst.	-0-	5,842,981
Saville Row Diversified Strategies	43,427,557	39,902,158
	\$ 66,018,748	\$ 59,169,301

As of June 30, 2024 and 2023, there were no unfunded commitments for these investments. The redemption frequency is quarterly on the first of January, April, July and October after a one-year lockout period. The redemption notice periods for these investments range from 55 to 75 days.

6. PROPERTY AND EQUIPMENT

Property, equipment, and their estimated useful lives are as follows as of June 30, 2024 and 2023:

	2024	2023	Range of estimated useful lives
Land	\$ 12,819,425	\$ 12,819,425	
Land improvements	3,413,388	3,369,169	10-20 years
Buildings	76,242,823	75,979,067	5-40 years
Medical office buildings	23,020,370	21,062,370	5-40 years
Building service equipment	58,454,628	58,137,773	5-25 years
Leasehold improvements	1,004,506	1,004,506	15-20 years
Fixed equipment	3,509,530	3,509,530	10-20 years
Major movable equipment	74,310,566	74,692,822	2-20 years
Vehicles	1,164,405	1,063,716	4 years
	253,939,641	251,638,378	
Accumulated depreciation	(181,366,805)	(174,581,828)	
Construction in progress	89,178,501	79,093,497	
	\$ 161,751,337	\$ 156,150,047	

The Hospital capitalizes interest cost as a component cost of significant construction and renovation projects. Interest cost capitalized was approximately \$1,887,000 and \$1,593,000 in 2024 and 2023, respectively. Investment income earned on unexpended debt proceeds administered by a trustee for specific projects is offset against the amount of interest cost capitalized. Such amounts were not significant to the financial statements as a whole during 2024 and 2023. As of June 30, 2024, the Hospital did not have any significant commitments for property and equipment as construction in progress projects were placed in service in early fiscal 2025.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

7. INVESTMENT IN JOINT VENTURE

The Hospital has an equity interest in a joint venture to operate a cancer care center (Progressive Cancer Center, LLC) in Marion, Indiana. As of June 30, 2024 and 2023, Hospital's ownership in Progressive Cancer Center, LLC is approximately 52%. The Hospital accounts for the investment under the equity method of accounting, as the governance structure is such that the Hospital cannot exercise control. The Hospital recognized a loss of approximately \$160,000 and a gain of \$411,000 related to its investment in Progressive Cancer Center, LLC for 2024 and 2023, respectively. The Hospital received dividend distributions during 2024 and 2023 of \$-0- and \$302,000 respectively. The gain (loss) is included in investment return and other, net in the statements of operations and changes in net assets. The following is the unaudited condensed financial information of Progressive Cancer Care, LLC as of June 30, 2024 and 2023 and for the years ended:

	2024	2023
Total assets	\$ 5,460,983	\$ 3,709,730
Total liabilities	\$ 2,577,491	\$ 536,917
Total equity	\$ 2,883,492	\$ 3,172,813
Total revenue	\$ 2,326,624	\$ 2,493,440
Net income (loss)	\$ (299,077)	\$ 763,282

8. LONG-TERM DEBT

Long-term debt consists of the following as of June 30, 2024 and 2023:

	2024	2023
Indiana Finance Authority		
Hospital revenue bonds, Series 2021A		
Serial bonds payable through July 1, 2036,		
interest at 4.000% to 5.000%	\$ 24,070,000	\$ 24,620,000
Hospital revenue bonds, Series 2020A		
Serial bonds payable through July 1, 2050,		
interest at 4.000%	69,430,000	69,430,000
Hospital revenue bonds, Series 2015A		
Variable rate securities, payable through June 2041,		
variable rate interest of 4.449% and 4.325%		
as of June 30, 2024 and 2023, respectively	21,440,000	23,050,000
Term loan with final redemption on January 1, 2031,		
interest at 2.700%	7,830,428	8,197,694
	122,770,428	125,297,694
Unamortized premium	8,513,943	9,352,464
Current portion	(2,588,088)	(2,527,266)
Unamortized debt issue costs	(1,052,034)	(1,135,022)
	\$ 127,644,249	\$ 130,987,870

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

In April 2021, the Hospital issued \$25,170,000 of Series 2021A Bonds, through the Indiana Finance Authority (the Authority). The 2021A Bonds are due in annual principal payments ranging from \$550,000 to \$2,785,000 with fixed interest ranging from 4.00% to 5.00% through July 2036.

In November 2020, the Hospital issued \$69,430,000 of Series 2020A Bonds, through the Authority, at a premium of approximately \$5,503,000 to finance various capital projects, including renovation of the Hospital's emergency department located on the Hospital's main campus in Marion, Indiana and construction of a new emergency room and clinical facility located in Gas City, Indiana. The 2020A Bonds are due in annual principal payments ranging from \$1,825,000 to \$7,300,000 with fixed interest of 4.00% through July 2050. Principal payments are set to begin in 2038.

In July 2015, the Hospital issued \$33,000,000 of Series 2015A Bonds through the Authority. The proceeds were used to retire previously issued bonds, in addition to making upgrades and renovations to the Hospital's main facility. The Series 2015A Bonds are due in varying principal amounts ranging from \$245,000 to \$2,350,000 through June 2041. The Hospital, the Authority, and BMO Harris Bank (BMO) then entered into a Bond Purchase Agreement (the Agreement) where BMO purchased from the Authority all of the Series 2015A Bonds in a private placement. The Agreement provides that BMO will hold the Series 2015A Bonds until the initial purchase date, which runs through July 1, 2025. Until the initial purchase date, the Series 2015A Bonds bear interest at a variable rate of .816% plus 68% of 1M Term SOFR reset monthly (4.449% and 4.325% as of June 30, 2024 and 2023, respectively), with principal and interest payments determined using a 25-year amortization schedule. At the end of the initial purchase date, the Series 2015A Bonds may be converted to another interest rate mode, remarketed to another bondholder or holders, or renewed for another term period with BMO. The Series 2015A Bonds could be converted to another interest rate mode to accommodate market conditions at that time. If the Series 2015A Bonds could not be remarketed at the initial purchase date, the Hospital would be subject to payment of the remaining principal of approximately \$19,780,000.

In January 2021, the Hospital entered into a loan agreement with Regions Commercial Equipment Finance, LLC (Regions) for \$9,000,000 to acquire two medical office buildings. The loan is due in monthly payments of approximately \$49,000 through December 2030 with a balloon payment of \$5,190,000 due in January 2031.

The Hospital granted a security interest in its gross revenue (as defined under the master trust indenture) as collateral for the Series 2021A, 2020A, and 2015A Bonds and loan agreement with Regions. In addition to various financial covenants, the Hospital covenants that it will not permit any lien or security interest on the Hospital's property and equipment other than certain permitted encumbrances. The Hospital believes it was in compliance with the financial covenants as of June 30, 2024 and 2023.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Below is the debt maturity schedule for the Hospital's long-term debt.

Year Ending June 30,	
2025	\$ 2,588,088
2026	2,698,609
2027	2,759,422
2028	2,885,051
2029	3,016,945
Thereafter	108,822,313
	<u>\$ 122,770,428</u>

9. LEASES

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

The Hospital has operating and finance 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 Hospital's lease agreements do not contain any material restrictive covenants. The leases have remaining terms of 1 to 3 years.

The Hospital'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 Hospital utilizes its collateralized incremental borrowing rate commensurate to the lease term as the discount rate for its leases unless the Hospital can specifically determine the lessor's implicit rate. Certain lease contracts contain non-lease components such as maintenance and utilities. The Hospital has made a policy election to not separate the lease and non-lease components, and thus recognize a single lease component for all of its right-of-use assets and lease liabilities. The operating lease ROU asset also includes any lease payments made and excludes lease incentives, if any.

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

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

In evaluating contracts to determine if they qualify as a lease, the Hospital considers factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if the Hospital 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 Hospital 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 Hospital's lease cost for 2024 and 2023 are as follows:

	2024	2023
Operating lease cost	\$ 910,799	\$ 1,091,659
Finance lease cost		
Amortization expense	396,888	437,152
Interest on lease liabilities	17,723	23,391
Total finance lease cost	414,611	460,543
Total lease expense	\$ 1,325,410	\$ 1,552,202

The Hospital's right-of-use assets and lease liabilities as of June 30, 2024 and 2023 and for the years ended are as follows:

	2024	2023
Right-of-use assets		
Operating lease assets	\$ 1,497,129	\$ 2,206,421
Finance lease assets	554,768	843,714
	\$ 2,051,897	\$ 3,050,135
Lease liabilities		
Current		
Operating lease liabilities	\$ 751,308	\$ 794,362
Finance lease liabilities	418,507	390,353
Total current	\$ 1,169,815	\$ 1,184,715
Noncurrent		
Operating lease liabilities	746,924	1,415,257
Finance lease liabilities	157,604	479,825
Total noncurrent	\$ 904,528	\$ 1,895,082
Total		
Operating lease liabilities	\$ 1,498,232	\$ 2,209,619
Finance lease liabilities	576,111	870,178
Total lease liabilities	\$ 2,074,343	\$ 3,079,797

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

	2024	2023
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 910,799	\$ 1,091,659
Operating cash flows from finance leases	\$ 17,723	\$ 23,391
Financing cash flows from finance leases	\$ 396,888	\$ 437,152
Weighted-average remaining lease term - operating leases	2.3 years	3.6 years
Weighted-average remaining lease term - finance leases	1.8 years	2.2 years
Weighted-average discount rate - operating leases	3.80%	3.80%
Weighted-average discount rate - finance leases	2.90%	2.24%

Future payments of lease liabilities are as follows:

Year Ending June 30,	Leases	
	Operating	Finance
2025	\$ 795,062	\$ 432,525
2026	445,564	106,041
2027	326,348	26,708
2028	-0-	26,708
2029	-0-	18,518
Total lease payments	1,566,974	610,500
Less interest	(68,742)	(34,389)
Present value of lease liabilities	\$ 1,498,232	\$ 576,111

10. PENSION PLANS

Defined Benefit Plan

The Hospital has a noncontributory defined benefit pension plan (Pension Plan) covering substantially all employees of the Hospital hired before July 1, 2005. The funding policy is to contribute annually at least the minimum contribution required to comply with the Employee Retirement and Security Act (ERISA) regulations. Effective December 31, 2009, the Pension Plan was amended to calculate frozen benefits accrued under all prior benefit formulas as of December 31, 2009 (based on monthly plan compensation and service prior to December 31, 2009) and to add a new benefit formula for service after December 31, 2009 equal to 0.5% of monthly plan compensation per year of service earned after December 31, 2009. Effective December 31, 2010, the Pension Plan was frozen and amended to cease all further benefit accruals under the Pension Plan for participants with 5 or more years of vesting service as of December 31, 2006. Accruals for participants with less than 5 years of vesting service as of December 31, 2006 were frozen as of December 31, 2006. Additionally, there was no service cost for 2024 or 2023 in light of these changes to the Pension Plan.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

The following tables set forth the Pension Plan change in benefit obligation, change in plan assets, and weighted average assumptions as of June 30, 2024 and 2023 (Measurement Date):

	<u>2024</u>	<u>2023</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 69,358,920	\$ 74,835,432
Interest cost	3,229,163	3,102,721
Actuarial gain	(1,886,748)	(3,316,345)
Benefit payments	<u>(5,304,901)</u>	<u>(5,262,888)</u>
Projected benefit obligation, end of year	65,396,434	69,358,920
Changes in plan assets		
Fair value of plan assets, beginning of year	58,037,802	61,404,766
Actual return on plan assets	561,954	(104,076)
Employer contributions	2,000,000	2,000,000
Benefit payments	<u>(5,304,901)</u>	<u>(5,262,888)</u>
Fair value of plan assets, end of year	<u>55,294,855</u>	<u>58,037,802</u>
Unfunded status		
Unfunded status of the plan, end of year	<u>\$ (10,101,579)</u>	<u>\$ (11,321,118)</u>
Amounts recorded in the balance sheet consist of		
Pension liability	<u>\$ (10,101,579)</u>	<u>\$ (11,321,118)</u>

The Hospital recognizes the cost related to employee service using the projected unit credit actuarial cost method and funds at least the minimum as calculated under ERISA.

The discount rate was selected by applying the benefit payout stream to the Citigroup Pension Discount curve spot rates.

The expected amortization of actuarial loss for the year ending June 30, 2025 is approximately \$2,243,000.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

The following table sets forth the components of net periodic benefit cost for 2024 and 2023 for the Pension Plan:

	2024	2023
Amounts not yet reflected in net periodic benefit cost and included in other changes in unrestricted net assets		
Actuarial loss	\$ 16,079,794	\$ 17,073,991
Components of net periodic benefit cost		
Interest cost	3,229,163	3,102,721
Expected return on plan assets	(3,367,354)	(3,156,585)
Amortization of loss	1,912,849	2,243,286
Net periodic benefit cost	\$ 1,774,658	\$ 2,189,422
Weighted-average actuarial assumptions to determine net periodic pension cost of June 30		
Discount rate	4.86%	4.31%
Expected long-term rate of return on assets	6.00%	5.30%
Weighted-average actuarial assumptions to determine benefit obligation cost of June 30		
Discount rate	5.23%	4.86%
Expected long-term rate of return on assets	6.30%	6.00%

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The Pension Plan asset target allocation for 2025 is 100% fixed income securities. The allocation as of June 30, 2024 and 2023, by asset category follows:

	Percentage of Plan assets	
Asset category	2024	2023
Fixed income and cash equivalents	100%	100%

See the Fair Value Measurement Note for the valuation methodologies for mutual funds related to the Pension Plan. The valuation methodology for debt securities is based on pricing models maximizing the use of observable inputs for similar securities.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the Pension Plan:

Year Ending June 30,	
2025	\$ 5,487,321
2026	5,537,364
2027	5,614,954
2028	5,542,883
2029	5,478,580
2030 - 2034	<u>25,456,225</u>
	<u>\$ 53,117,327</u>

Defined Contribution Plan

The Hospital has a 403(b) Employer Contributory Plan (the Plan) which permits employees of the Hospital to contribute to the Plan, on a pretax basis, up to the applicable limitations under Section 402(g)(l) of the Internal Revenue Code. The contributions made by each employee are fully vested immediately and are not subject to forfeiture. The Hospital matches contributions of 50% of the employee's contribution up to 6% of qualifying wages for all benefit eligible employees. Additionally, the Hospital can elect to make discretionary contributions to the Plan. Contribution expense for 2024 and 2023 approximated \$1,424,000 and \$1,409,000, respectively. Employees are fully vested immediately on the employer match and discretionary contributions.

11. MEDICAL OFFICE BUILDINGS

The Hospital owns medical office buildings in Marion, Gas City, Fairmount, and Swayzee, Indiana, and leases the buildings to physicians, physician groups, and others under various operating leases, which expire through 2029. Lease rental income of approximately \$631,000 and \$659,000 is included in other revenue in the statements of operations and changes in net assets for 2024 and 2023, respectively. The Hospital is scheduled to receive future minimum rental payments under these lease agreements as follows:

Year Ending June 30,	
2025	\$ 494,000
2026	285,000
2027	192,000
2028	178,000
2029	<u>96,164</u>
	<u>\$ 1,245,164</u>

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

12. MALPRACTICE INSURANCE

The Hospital 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 Hospital 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 Hospital 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 Hospital is a member of a Vermont insurance company, Tecumseh Health Reciprocal Risk Retention Group (THRRRG), as a means to comply with the Hospital's required portion of the insurance coverage pursuant to the Act, as well as its liability insurance. Membership in THRRRG includes multiple hospitals as of June 30, 2024 and 2023. The Hospital's investment in THRRRG of approximately \$2,671,000 is included in other assets as of June 30, 2024 and 2023.

The Hospital has estimated the reserve for loss contingencies using actuarial valuations in determining the estimated reserve for loss contingencies, including the incurred but not reported claims. Management of the Hospital has estimated a reserve for loss contingencies of approximately \$513,000 and \$527,000, respectively, as of June 30, 2024 and 2023 to cover malpractice exposures.

13. COMMITMENTS AND CONTINGENCIES

Regulatory Investigations

The U.S. Department of Justice, the Internal Revenue Service, and other federal agencies routinely conduct regulatory investigations and compliance audits of health care providers. The Hospital is subject to these regulatory efforts. Management believes that any liability resulting from these matters will not have a material impact on the financial position, results of operations or cash flows of the Hospital.

Legal Matters

The Hospital is involved in various legal actions in the normal course of its operations. Management believes that any liability resulting from these matters will not have a material impact on the financial position, results of operations or cash flows of the Hospital.

Self-Insured Health Plan

The Hospital has a self-insurance plan for its employees' health care benefits. A third-party claims administrator has been retained to process all benefit claims. The plan purchased individual excess risk insurance to cover individual health claims in excess of \$250,000. The plan does not have an aggregate stop loss. Total expense was approximately \$9,608,000 for 2024 and \$11,060,000 for 2023.

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

14. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the 2024 and 2023 balance sheet date, comprise the following:

	2024	2023
Cash	\$ 14,258,388	\$ 10,887,199
Accounts receivable (patient and physician)	26,347,382	22,547,624
Other receivables	1,068,244	1,433,467
Estimated third-party settlements	-0-	467,709
	<u>\$ 41,674,014</u>	<u>\$ 34,868,290</u>

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 balance sheet date. Accounts receivable, other receivables and estimated third-party settlements are subject to implied time restrictions, but are expected to be collected within one year. The current portion of notes receivable is excluded from liquidity as a portion of balance will be forgiven rather than collected.

As a part of the Hospital'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 Hospital periodically invests excess cash in investments. The Hospital has board designated investments of approximately \$298,913,000 and \$290,624,000 as of June 30, 2024 and 2023, respectively. Although the Hospital 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.

15. FUNCTIONAL EXPENSES

The Hospital provides inpatient, outpatient, and other ancillary services to the residents within its geographical region. Expenses related to providing these services for June 30, 2024 and 2023 are as follows:

	2024			2023		
	Healthcare Services	Management & General	Total	Healthcare Services	Management & General	Total
Expenses						
Salaries and wages	\$ 76,635,418	\$ 7,583,647	\$ 84,219,065	\$ 72,233,222	\$ 7,558,875	\$ 79,792,097
Employee benefits	15,901,253	2,391,802	18,293,055	16,599,426	2,731,911	19,331,337
Physician services	9,445,949	-0-	9,445,949	7,900,051	-0-	7,900,051
Professional services	11,965,772	3,638,513	15,604,285	14,941,844	4,519,323	19,461,167
Medical supplies	13,731,725	-0-	13,731,725	14,900,634	-0-	14,900,634
Drugs and IV solutions	15,612,334	-0-	15,612,334	13,659,842	-0-	13,659,842
Purchased services	9,317,666	2,329,417	11,647,083	9,383,803	2,345,951	11,729,754
Plant and equipment maintenance	4,742,954	1,185,739	5,928,693	4,206,986	1,051,747	5,258,733
Other	28,426,107	2,420,040	30,846,147	22,539,892	2,849,345	25,389,237
Interest	2,303,260	121,224	2,424,484	2,460,235	129,486	2,589,721
Depreciation and amortization	7,949,219	1,719,998	9,669,217	8,406,848	1,826,225	10,233,073
Total expenses	<u>\$ 196,031,657</u>	<u>\$ 21,390,380</u>	<u>\$ 217,422,037</u>	<u>\$ 187,232,783</u>	<u>\$ 23,012,863</u>	<u>\$ 210,245,646</u>

MARION HEALTH

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2024 AND 2023

Certain costs such as salaries and wages, employee benefits and physician services have been allocated among health care services and management and general categories based on actual direct expenditures incurred by departments, locations, and cost centers, and cost allocations based upon time spent by the Hospital's personnel. Other expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include professional services, purchased services, plant and equipment maintenance, other expenses, depreciation and amortization, and interest, which are allocated based on the ratio of direct costs charged to the category to total direct costs. Although the methods used were appropriate, alternative methods may provide different results. Fundraising costs were not significant to the Hospital in 2024 and 2023.