CONSOLIDATED FINANCIAL STATEMENTS

Mercy Health
Years Ended June 30, 2024 and 2023
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Mercy Health

Consolidated Financial Statements

Years Ended June 30, 2024 and 2023

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Report of Independent Auditors

The Board of Directors
Mercy Health

Opinion

We have audited the consolidated financial statements of Mercy Health, which comprise the consolidated balance sheets as of June 30, 2024 and 2023, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

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

Responsibilities of Management for the Financial Statements

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

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

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

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

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

Ernst & Young LLP

September 18, 2024

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Mercy Health

Consolidated Balance Sheets
(In Thousands)

	June 30 2024	June 30 2023
Assets		
Current assets:		
Cash and cash equivalents	**$ 614,297**	$ 529,638
Accounts receivable, net	**1,087,505**	830,562
Inventories	**159,640**	133,162
Short term investments	**46,883**	46,883
Other current assets	**197,853**	198,850
Total current assets	**2,106,178**	1,739,095
Investments	**3,979,443**	3,392,083
Property and equipment, net	**3,609,138**	3,455,079
Other assets	**984,390**	895,036
Total assets	**$ 10,679,149**	$ 9,481,293
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term obligations	**$ 63,939**	$ 29,558
Accounts payable	**450,597**	445,718
Accrued payroll and related liabilities	**572,394**	502,586
Accrued liabilities and other	**490,959**	440,021
Total current liabilities	**1,577,889**	1,417,883
Insurance reserves and other liabilities	**750,924**	669,710
Pension liabilities	**193,953**	231,654
Long-term obligations, less current maturities	**2,588,822**	2,173,361
Total liabilities	**5,111,588**	4,492,608
Net assets:		
Without donor restrictions	**5,346,005**	4,806,304
With donor restrictions	**221,556**	182,381
Total net assets	**5,567,561**	4,988,685
Total liabilities and net assets	**$ 10,679,149**	$ 9,481,293

See accompanying notes.

Mercy Health

Consolidated Statements of Operations

(In Thousands)

	Year Ended June 30 2024	2023
Operating revenues:		
Patient service revenues	**$ 8,333,039**	$ 7,312,620
Capitation revenues	**418,413**	237,392
Other operating revenues	**515,373**	468,384
Total operating revenues	**9,266,825**	8,018,396
Operating expenses:		
Salaries and benefits	**5,125,109**	4,559,367
Supplies and other	**3,361,308**	2,936,005
Medical claims expense	**199,199**	102,682
Interest	**93,726**	75,230
Depreciation and amortization	**330,100**	314,332
Impairment and severance	**–**	18,979
Total operating expenses	**9,109,442**	8,006,595
Operating gain	**157,383**	11,801
Nonoperating gains (losses):		
Investment returns, net	**348,643**	101,582
Realized and unrealized gains on interest rate swaps, net	**6,288**	16,937
Inherent contribution of acquired entities	**21,426**	–
Other, net	**(33,866)**	(25,944)
Total nonoperating gains, net	**342,491**	92,575
Excess of revenues over expenses	**499,874**	104,376
Other changes in net assets without donor restrictions:		
Pension liability adjustments	**38,772**	49,227
Net assets released from restrictions for property acquisitions	**5,885**	22,424
Other	**(4,830)**	3,919
Increase in net assets without donor restrictions	**$ 539,701**	$ 179,946

See accompanying notes.

Mercy Health

Consolidated Statements of Changes in Net Assets
(In Thousands)

	Year Ended June 30	
	2024	**2023**
Increase in net assets without donor restrictions	**$ 539,701**	$ 179,946
Net assets with donor restrictions:		
Pledges, bequests, and gifts for specific purposes	**43,762**	37,400
Investment returns, net	**4,279**	26
Net assets released from restrictions	**(16,930)**	(22,424)
Other	**8,064**	(7,965)
Increase in net assets with donor restrictions	**39,175**	7,037
Increase in net assets	**578,876**	186,983
Net assets at beginning of year	**4,988,685**	4,801,702
Net assets at end of year	**$ 5,567,561**	$ 4,988,685

See accompanying notes.

Mercy Health

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30 2024	Year Ended June 30 2023
Operating activities		
Increase / (decrease) in net assets	**$ 578,876**	$ 186,983
Adjustments to reconcile (increase) decrease in net assets to net cash provided by operating activities:		
Pension liability adjustments	**(38,772)**	(49,227)
Pledges, bequests, and gifts for specific purposes	**(43,762)**	(37,400)
Inherent contribution of acquired entities	**(25,056)**	–
Unrealized gain on interest rate swap	**(4,218)**	(18,778)
Depreciation and amortization	**330,100**	314,332
Impairment expense	**–**	11,877
Changes in assets and liabilities:		
Accounts receivable	**(208,400)**	16,757
Investments classified as trading	**(217,685)**	84,043
Inventories and other current assets	**(1,505)**	(68,776)
Accounts payable	**(44,026)**	(20,780)
Accrued liabilities and other	**78,494**	(185,901)
Insurance reserves and other liabilities	**(9,172)**	(19,401)
Net cash provided by operating activities	**394,874**	213,729
Investing activities		
Additions to property and equipment, net	**(362,250)**	(390,992)
Net change in other assets	**15,248**	33,199
Net change in alternative investments	**(81,793)**	(137,308)
Cash received from contribution of SoutheastHEALTH	**26,960**	–
Net cash used in investing activities	**(401,835)**	(495,101)
Financing activities		
Proceeds from issuance of long-term debt, net of original issue discount/premium and financing costs	**298,698**	374,940
Principal payments on long-term obligations	**(46,411)**	(411,296)
Pledges, bequests, and gifts for specific purposes	**43,762**	37,400
Net cash provided by financing activities	**296,049**	1,044
Net increase in cash and cash equivalents and restricted cash	**289,088**	(280,328)
Cash and cash equivalents and restricted cash at beginning of year	**713,826**	994,154
Cash and cash equivalents and restricted cash at end of year	**$ 1,002,914**	$ 713,826
Supplemental disclosures		
Cash and cash equivalents	**$ 614,297**	$ 529,638
Restricted cash included in other assets	**–**	1,070
Restricted cash included in investments	**388,617**	183,118
Total cash and cash equivalents and restricted cash and cash equivalents	**$ 1,002,914**	$ 713,826
Cash paid for interest	**$ 105,960**	$ 85,951

See accompanying notes.

Mercy Health

Notes to Consolidated Financial Statements
(Tables in Thousands)

June 30, 2024

1. Organization

Mercy Health (Mercy) was incorporated in September 1986 and is the sole corporate member of various health care corporations. Mercy is sponsored by Mercy Health Ministry, a Public Juridic Person whose board members include Sisters of Mercy and lay leaders. Prior to sponsorship by Mercy Health Ministry, Mercy was sponsored by the Institute of the Sisters of Mercy of the Americas, Regional Community of St. Louis, a religious order of the Roman Catholic Church.

Mercy and each of its subsidiaries listed below are incorporated as not-for-profit corporations under the laws of the state of incorporation and are tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code (the Code).

Mercy's ministry office (headquarters) is located in St. Louis, Missouri. The Health System (Health System) comprises the following corporations and their subsidiaries:

- Mercy Health; St. Louis, Missouri
- Mercy Health Fort Smith Communities; Fort Smith, Arkansas
- Mercy Health Northwest Arkansas Communities; Rogers, Arkansas
- Mercy Health East Communities; St. Louis, Missouri
- Mercy Health Springfield Communities; Springfield, Missouri
- Mercy Health Oklahoma Communities, Inc.; Oklahoma City and Ardmore, Oklahoma
- Mercy Health Southwest Missouri/Kansas Communities and Joplin, Missouri

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

Acquisitions

On December 20, 2023, the Health System acquired SoutheastHEALTH, a not-for-profit health system located in Cape Girardeau, Missouri. The acquisitions provided the Health System's patients with access to a greater number of specialists and strengthened health care delivery across southeast Missouri through increased patient access to high-quality care. These transactions were

1. Organization (continued)

accounted for as acquisitions in accordance with Accounting Standards Codification (ASC) Topic 958-805, *Not-for-Profit Entities – Business Combinations*, and acquired assets and liabilities were recorded at fair value, a Level 3 measurement.

The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed:

Assets acquired:	
Cash and investments	$ 109,343
Accounts receivable	48,543
Inventory, prepaid expenses, and other current assets	23,976
Property, plant, and equipment	100,800
Other long-term assets	8,322
Total assets acquired	290,984
Liabilities assumed:	
Accounts payable	48,905
Accrued and other liabilities	40,577
Long-term obligations	176,446
Total liabilities assumed	265,928
	$ 25,056

The fair value of net assets of $25.1 million in the preceding table was recognized on the consolidated statements of operations and changes in net assets for the year ended June 30, 2024, as a nonoperating inherent contribution of acquired entities of $21.5 million and contribution of restricted net assets of acquired entities of $3.6 million included in other increase in net assets without donor restrictions on the consolidated statement of changes in net assets.

The operating results of Mercy Hospital Southeast are included in the Health System's consolidated financial statements from the date of acquisition. Operating revenues of the entities acquired in fiscal 2024 included on the consolidated statement of operations were $188.7 million for the year ended June 30, 2024.

1. Organization (continued)

On an unaudited pro forma basis, had the Health System completed the Mercy Hospital Southeast acquisition as of the beginning of fiscal year 2023, the acquisitions would have reported $169.1 million and $403.0 million in additional operating revenues in fiscal years 2024 and 2023, respectively, and $137.9 million and $30.1 million less excess of revenues over expenses for the years ended June 30, 2024 and 2023, respectively. However, the unaudited pro forma information is not necessarily indicative of the historical results that would have been obtained had the transactions actually occurred July 1, 2022, or of future results.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts classified as investments, are considered cash equivalents. Cash equivalents are recorded at fair value on the consolidated balance sheets and exclude amounts held for long-term investment purposes and collateral posted on interest rate swap agreements as those amounts are commingled with investments and other assets, respectively. The Health System routinely invests in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations or repurchase agreements collateralized by these instruments. Financial instruments that potentially subject the Health System to concentrations of credit risk include the Health System's cash and cash equivalents. The Health System places its cash and cash equivalents with institutions with high credit quality. However, at certain times, such cash and cash equivalents are in excess of government-provided insurance limits.

Inventories

Inventories, which consist principally of medical supplies and pharmaceuticals, are stated at the lower of cost or market. Cost is determined principally using the average cost method.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value at the date of receipt.

2. Summary of Significant Accounting Policies (continued)

Depreciation is provided using the straight-line method over the estimated useful lives of land and leasehold improvements, buildings, and equipment. The estimated useful lives are as follows: land and leasehold improvements, 2 to 40 years; buildings, 3 to 80 years; and equipment, 2 to 20 years.

Property and equipment under financing lease obligations are amortized using the straight-line method over the lease term or the estimated useful life of the leased asset, whichever period is shorter. Such amortization is included with depreciation on the accompanying consolidated statements of operations.

COVID-19

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which has provided economic assistance to a wide array of industries, including health care. The Health System recognized $16.1 million and $29.8 million of Provider Relief Funds, which are recorded in other operating revenues in fiscal years 2024 and 2023, respectively. Mercy received other CARES Act funding in addition to the Provider Relief Funds, which are not material.

Asset Impairment

The Health System periodically evaluates the carrying value of its long-lived assets for impairment when indicators of impairment are identified. These evaluations are primarily based on the estimated recoverability of the assets' carrying value based on undiscounted cash flows. Impairment write-downs are recognized in operating income at the time the impairment is identified.

Investments in Unconsolidated Affiliates

The equity method of accounting is used for investments in unconsolidated affiliates where the Health System does not have significant control or where ownership is 50% or less. The equity income or loss on these investments is recorded in other operating revenues on the accompanying consolidated statements of operations.

2. Summary of Significant Accounting Policies (continued)

Goodwill

The Health System records goodwill arising from a business combination as the excess of purchase price and related costs over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. The Health System annually reviews the carrying value of goodwill for impairment. In addition, a goodwill impairment assessment is performed whenever circumstances indicate a potential impairment may exist. If such circumstances suggest that the recorded amounts of any of these assets cannot be recovered, the carrying values of such assets are reduced to fair value. If the carrying value of any of these assets is impaired, a charge may be incurred to results of operations.

Net Assets

The Health System's net assets and activities are classified into two classes, with or without donor restrictions, based on the existence or absence of donor-imposed restrictions. The general nature of the donor restrictions is to support the Health System's indigent care mission and health education programs and to assist with capital projects.

Patient Service Revenues and Patient Accounts Receivable

Patient service revenues and patient accounts receivable are reported at the amount that reflects the consideration to which the Health System expects to be entitled in exchange for providing patient care.

Capitation Revenues and Medical Claims Expense

Mercy has entered into various risk-based contracts with certain health maintenance organizations (HMOs). Under these arrangements, Mercy receives capitated payments based on the demographic characteristics of covered members in exchange for agreeing to provide certain medical services to those members. These payments are reflected as capitation revenues on the accompanying consolidated statements of operations. Mercy recognizes medical claims expense for services provided to members from out-of-network providers. The medical claims expense represents claims paid, claims reported but not yet paid, and an estimate of claims incurred but not reported

2. Summary of Significant Accounting Policies (continued)

(IBNR). The claims IBNR amount is estimated based upon prior experience modified for current trends. The claims IBNR amount was $23.9 million and $14.6 million at June 30, 2024 and 2023, respectively, and was included in accrued liabilities and other on the accompanying consolidated balance sheets.

Services to the Community

In support of its mission, the Health System provides care to patients who personally bear a significant financial burden relative to their health care services and are deemed to be medically indigent. Traditional charity care includes the cost of services provided to persons who cannot afford health care because of the financial burden of the health care services and/or who are uninsured or underinsured. Traditional charity care also includes services for which the patient may not participate in the charity care process but is otherwise deemed to meet the Health System's charity care policy.

Because the Health System does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as patient service revenue. The cost of traditional charity care was $168.9 million and $121.3 million in 2024 and 2023, respectively. The Health System estimates cost of charity care using a calculated ratio of costs to charges by hospital and clinic and applies that ratio to the relevant gross charges.

Health care services to patients under government programs, such as Medicare and Medicaid, are also considered part of the Health System's benefit provided to the community since a portion of such services is reimbursed at amounts less than cost. In addition, the Health System maintains community benefit programs designed to positively impact the health status of the communities served. These services include various clinics and outreach programs (designed to deliver health care services to underserved communities), medical education and research activities, and direct cash and in-kind charitable contributions.

These community benefit programs also include the activities of Mercy Ministries of Laredo, Mercy Caritas, Catherine's Fund, and Mercy Family Center, which are administered by the Health System. These programs finance charitable activities to help meet the needs of the poor and sick.

2. Summary of Significant Accounting Policies (continued)

Investments

Investments include assets set aside through resolution by the Board of Directors for future long-term purposes. In addition, investments include amounts contributed by donors with stipulated restrictions. Investments also include amounts held by trustees under bond indenture agreements, as well as amounts held under the terms of other trust agreements. These assets include investments in equity securities and debt securities, which are measured at fair value. The cost of securities sold is based on the specific-identification method. The Health System accounts for its ownership interest in alternative investments based on the net asset value (NAV). Management has utilized the best available information for reported alternative investment values, which in some instances are valuations as of an interim date.

For purposes of recognizing investment returns as a component of excess of revenues over expenses, substantially all investments, other than alternative investments, are considered to be trading securities. Investment returns arising from donor-restricted resources are reported as a direct increase or decrease in net assets with donor restrictions on the accompanying consolidated statements of changes in net assets, consistent with the donors' restrictions. In addition, a portion of investments is used to fund payments of professional liability claims and, as a result, the investment returns related to the amount of investments expected to settle the professional liability are included in other operating revenues within the accompanying consolidated statements of operations. All other investment returns, including alternative investments, are included in nonoperating gains and losses on the accompanying consolidated statements of operations. In addition, cash flows from the purchases and sales of marketable securities designated as trading are reported as a component of operating activities on the accompanying consolidated statements of cash flows.

Derivative Financial Instruments

Derivative financial instruments are contracts between the Health System and a third party (counterparty) that provide for economic payments between the parties based on changes in a defined market security or index or combination thereof. The Health System's derivative financial instruments are primarily interest rate swap agreements utilized as part of its debt management process. The Health System recognizes all derivative financial instruments as either assets or liabilities on the accompanying consolidated balance sheets at fair value. The Health System does

2. Summary of Significant Accounting Policies (continued)

not offset fair value amounts recognized for derivative financial instruments or fair value amounts posted as cash collateral. The Health System does not account for any of its interest rate swap agreements as hedges and, accordingly, realized and unrealized gains (losses) and net settlement payments are reflected as a component of nonoperating gains and losses on the accompanying consolidated statements of operations.

Pledges, Bequests, and Gifts for Specific Purposes

Unconditional promises to give cash and other assets 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. Gifts are recorded as an increase in net assets with donor restrictions if they are received with donor stipulations that limit the use of the assets. Upon expenditure in accordance with a donor's restrictions and when the asset is placed in service, net assets restricted for capital acquisitions are reported as direct additions to net assets without donor restrictions, and assets restricted for operating purposes are reported as an increase in other operating revenues. Donor-restricted contributions for operating purposes whose restrictions are met within the same year as received, and contributions received by donors without restrictions, are reflected as other operating revenues on the accompanying consolidated statements of operations.

Operating Indicator

The Health System's operating indicator operating gain includes all revenue, gains and other support, and expenses directly related to the health care operations during the reporting period. The operating indicator excludes nonoperating gains and losses, pension liability adjustments, and net assets released from restrictions for property acquisitions.

Performance Indicator

The Health System's performance indicator, excess of revenues over expenses, includes all changes in net assets without donor restrictions other than pension liability adjustments, and net assets released from restrictions for property acquisitions.

2. Summary of Significant Accounting Policies (continued)

Operating and Nonoperating Gains (Losses)

The Health System's primary mission is to meet the health care needs in its market areas by providing general health care services to residents within communities served, including acute inpatient, subacute inpatient, physician, outpatient, ambulatory, and home care, as well as related general and administrative services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the Health System's primary mission are considered to be nonoperating. Nonoperating activities include net investment returns, excluding the estimated earnings related to the investments attributed to professional liabilities, pension liability adjustments, and net realized and unrealized gains (losses) on interest rate swaps.

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 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. Actual results could differ from those estimates.

Federal Income Tax

Primarily all of the Health System entities are recognized by the Internal Revenue Service (IRS) as exempt from federal income tax under Section 501(a) of the Code as charitable organizations qualifying under Code Section 501(c)(3), by virtue of IRS determination letters or inclusion in the Official Catholic Directory. The Health System completed an analysis of its tax positions in accordance with applicable accounting guidance and determined that no amounts were required to be recognized on the consolidated financial statements at June 30, 2024 or 2023.

2. Summary of Significant Accounting Policies (continued)

Accounting Pronouncements Adopted

Effective July 1, 2023, the Health System adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update No. (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU requires entities to include estimates for expected credit losses on financial assets in scope, replacing the former incurred loss methodology. The adoption of this ASU did not have a material impact to the Health System's consolidated financial statements.

3. Patient Service Revenue and Patient Receivables

Patient service revenue is reported at the amount that reflects the consideration the Health System expects to be paid for providing patient care. Revenue is recognized as performance obligations, based on the nature of the services provided by the Health System, are satisfied. Performance obligations satisfied over time relate to patients receiving inpatient acute care services from admission to the point when services are no longer required, which is generally at the time of discharge. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Outpatient services are performance obligations satisfied at a point in time and revenue is recognized when goods or services are provided and the Health System does not believe it is required to provide additional goods or services. Management believes this method provides a fair depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

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

3. Patient Service Revenue and Patient Receivables (continued)

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

The Health System determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payers, discounts provided to uninsured and underinsured patients in accordance with policy, and/or implicit price concessions based on the historical collection experience of patient accounts. The Health System determines the transaction price associated with services provided to patients who have third-party payer coverage with Medicare, Medicaid, managed care programs, and other third-party payers based on reimbursement terms per contractual agreements, discount policies, and historical experience. Payment arrangements with those payers include prospectively determined rates per admission or visit, reimbursed costs, discounted charges, per diem rates, and value-based payments. Reported costs and/or services provided under certain of the arrangements are subject to retroactive audit and adjustment. Patient service revenues (net of contractuals and discounts) are recorded during the period the health care services are provided and are reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Estimates of contractual allowances under managed care health plans are based upon the services provided, historical payment rates, and the payment terms specified in the related contractual agreements. Revenues related to uninsured patients have discounts applied in accordance with the Health System's policy. Patient service revenues increased by approximately $43.0 million and $35.3 million in 2024 and 2023, respectively, due to revised estimates consisting primarily of retroactive third-party adjustments for years that are subject to audits, reviews, and investigations.

3. Patient Service Revenue and Patient Receivables (continued)

The following is a summary of the Health System's patient service revenues by major payer source, net of price concessions, for the years ended June 30:

	2024	2023
Medicare	**$ 3,483,544**	$ 3,153,732
Medicaid	**846,235**	758,962
Managed care/other	**3,889,032**	3,328,102
Self-pay	**114,228**	71,824
	$ 8,333,039	$ 7,312,620

Laws and regulations governing the Medicare and Medicaid programs 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. Noncompliance with Medicare and Medicaid laws and regulations can make the Health System subject to significant regulatory action, including substantial fines and penalties, as well as exclusion from the Medicare and Medicaid programs.

The Health System provides health care services through inpatient and outpatient care facilities located in several states. The Health System grants credit to patients in return for health care services rendered to said patients, substantially all of whom are residents of the communities served. The Health System does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, HMOs, and commercial insurance policies). At June 30, 2024 and 2023, approximately 43% and 41%, respectively, of net accounts receivable were collectible from governmental payers (including Medicare and Medicaid), with approximately 47% and 49%, respectively, of net accounts receivable collectible from commercial insurance and managed care payers. One managed care payer represented 21% and 20% of net accounts receivable for 2024 and 2023, respectively.

4. Financial Assets and Liquidity Resources

As of June 30, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital expenditures not financed with debt, were as follows:

	2024	2023
Financial assets:		
Cash and cash equivalents	**$ 614,297**	$ 529,638
Accounts receivable	**1,087,505**	830,562
Other current assets	**197,853**	198,850
Investments	**4,026,326**	3,438,966
Total financial assets	**5,925,981**	4,998,016
Less:		
Cash and investments with donor restrictions	**(186,100)**	(103,506)
Pledge receivable with restrictions	**(43,042)**	(42,803)
Investments with liquidity of more than one year	**(1,114,381)**	(920,970)
Total financial assets available within one year	**4,582,458**	3,930,737
Liquidity resources:		
Unused lines of credit	**425,000**	425,000
Total financial assets and liquidity resources available within one year	**$ 5,007,458**	$ 4,355,737

As part of the Health System's investment policy, the Health System holds highly liquid investments to enhance its ability to satisfy liquidity. To manage liquidity, the Health System maintains general operating lines of credit that may be drawn upon as needed to manage cash flows. Refer to Note 11 for further information.

The availability of certain amounts within the board-designated investments may change in accordance with board policies at any time.

5. Investments

The following is a summary of investments:

	June 30 2024	June 30 2023
Without donor restrictions	**$ 3,840,226**	$ 3,335,460
Debt project and debt service reserve funds	**45,892**	–
Restricted by donor or grantor	**140,208**	103,506
Total investments	**4,026,326**	3,438,966
Less short-term investments	**(46,883)**	(46,883)
	$ 3,979,443	$ 3,392,083

The following is a summary of investments by classification:

	June 30 2024	June 30 2023
Cash and cash equivalents	**$ 388,617**	$ 183,108
Equities:		
Domestic equities	**721,047**	596,499
International equities	**354,572**	465,075
Fixed income:		
Corporate bonds	**708,545**	517,100
Government and agencies	**295,804**	198,824
Mutual funds	**57,846**	197,251
Alternative investments:		
Hedge funds	**399,289**	346,154
Private partnerships	**1,081,903**	909,752
Other	**36,320**	27,959
Amount due to brokers	**(38,802)**	(10,122)
Amounts due from brokers	**21,185**	7,366
	4,026,326	3,438,966
Less short-term investments	**(46,883)**	(46,883)
Total investments	**$ 3,979,443**	$ 3,392,083

5. Investments (continued)

The following is a summary of investment returns:

	Year Ended June 30 2024	2023
Investments:		
Interest and dividends	**$ 36,966**	$ 41,434
Realized gains (losses), net	**87,390**	(53,390)
Unrealized gains, net	**224,287**	113,538
Investment returns included in nonoperating gains, net	**348,643**	101,582
Investment returns included in net assets with donor restrictions	**4,279**	26
Investment returns included in other operating revenues	**3,661**	1,933
Total investment returns	**$ 356,583**	$ 103,541

Investment return is reduced by external and direct internal investment expenses.

The Health System's investments are exposed to various kinds and levels of risk. Fixed-income securities expose the Health System to interest rate risk, currency risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed-income securities is affected, particularly those with fixed rates. Currency risk is the risk associated with fluctuations in foreign exchange rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. Equity securities expose the Health System to market risk, currency risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Currency risk as previously defined tends to be higher for emerging market equities. Performance risk is the risk associated with a company's operating performance. Liquidity risk as previously defined tends to be higher for foreign equities and small capitalization equities.

Certain of the Health System's investments are made through alternative investments, primarily private limited partnership investments (equity, debt, real asset) and absolute return (hedge) funds. These investments provide the Health System with a proportionate share of the investment gains and losses. The fund manager has full discretionary authority (within its given mandate) over the investment decisions and provides the net asset valuation, typically through third-party administrators. The hedge funds and private limited partnership funds present risks similar to those

5. Investments (continued)

of traditional investments, as well as some additional risks. Due to the fact that these funds are invested through limited partnerships or other illiquid fund vehicles, pricing is infrequent and liquidity may also be limited, in some cases up to 24 months for hedge funds. Due to infrequent pricing and illiquidity of underlying investments, it is common practice for private limited partnership funds to require investors to commit to a ten-year fund term, although the distribution of capital is likely to occur prior to the ten-year termination date. Certain hybrid limited partnership funds may invest in liquid securities; however, the investments would be inaccessible for the term of the structure. Terms for these hybrid vehicles could be shorter in duration, lasting up to five years for the full investment and distribution periods. These investments may also employ leverage, which may lead to additional risk of loss. These investments are subject to market risk, interest rate risk, currency risk, credit risk, performance risk, and liquidity risk, as well as various other types of risks. At June 30, 2024, the Health System has commitments to fund an additional $843 million in these investments.

6. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurements and disclosures topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs 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 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Pricing inputs other than quoted prices included in Level 1, which are either directly observable or can be derived or supported from observable data as of the reporting date.

6. Fair Value Measurements (continued)

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. In evaluating the significance of input, the Health System generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that individually, or when aggregated with other unobservable inputs, represent more than 10% of the fair value of the assets or liabilities. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Financial assets and financial liabilities measured at fair value on a recurring basis were determined using the following inputs at June 30, 2024:

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	**$ 361,000**	**$ 10,000**	**$ –**	**$ 371,000**
Equities:				
Domestic equities	**719,546**	**–**	**–**	**719,546**
International equities	**60,989**	**–**	**–**	**60,989**
Fixed income:				
Corporate bonds	**13,274**	**420,653**	**786**	**434,713**
Government and agencies	**100,532**	**195,272**	**–**	**295,804**
Mutual funds	**57,846**	**–**	**–**	**57,846**
Other	**5,000**	**–**	**517**	**5,517**
Assets at NAV:				
Hedge funds	**–**	**–**	**–**	**399,289**
Private partnership	**–**	**–**	**–**	**1,081,903**
Commingled funds	**–**	**–**	**–**	**568,914**
Other	**–**	**–**	**–**	**30,805**
Total investments				**$ 4,026,326**
Deferred compensation plan assets:				
Equities – mutual funds	**$ 340,764**	**$ –**	**$ –**	**$ 340,764**
Liabilities				
Interest rate swap agreements	**$ –**	**$ 662**	**$ –**	**$ 662**

6. Fair Value Measurements (continued)

Financial assets and financial liabilities measured at fair value on a recurring basis were determined using the following inputs at June 30, 2023:

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	$ 180,352	$ –	$ –	$ 180,352
Equities:				
Domestic equities	470,139	–	–	470,139
International equities	96,235	–	–	96,235
Fixed income:				
Mutual funds	197,251	–	–	197,251
Corporate bonds	–	277,716	–	277,716
Government and agencies	6,903	191,921	–	198,824
Other	–	4,413	–	4,413
Assets at NAV:				
Hedge funds				346,154
Private partnership				909,752
Commingled funds				734,584
Other				23,546
Total investments				$ 3,438,966
Deferred compensation plan assets:				
Equities – mutual funds	$ 295,079	$ –	$ –	$ 295,079
Collateral posted on interest rate swap agreements	$ 1,070	$ –	$ –	$ 1,070
Liabilities				
Interest rate swap agreements	$ –	$ 4,880	$ –	$ 4,880

Deferred compensation plan assets and collateral posted on interest rate swaps agreements are reported in other assets, and interest rate swaps (liabilities) are reported in insurance reserves and other liabilities on the accompanying consolidated balance sheets.

6. Fair Value Measurements (continued)

The following is a description of the Health System's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. The fair value of certain Level 2 securities was determined using multiple price types of bid/offer, last traded, settlement, evaluated, and official primary exchange close-time pricing, provided by third-party pricing services if quoted market prices were not available. The quality of the prices received is evaluated through price comparisons and tolerance level checks. These Level 2 investments include corporate bonds, treasuries, and agencies. The fair values of the interest rate swap contracts, also Level 2 measurements, are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations reflect a credit spread adjustment to the London Interbank Offered Rate (LIBOR) discount curve in order to reflect nonperformance risk.

The credit spread adjustment is derived from the Health System's and other comparable rated entities' bonds priced in the market and adjusted with a gross-up of the tax-exempt spread to a taxable equivalent spread for the Health System and counterparty bond trading levels (or credit default swap spreads).

The carrying values of cash and cash equivalents, accounts receivable, pledges receivable, and current liabilities are reasonable estimates of their fair values due to the short-term nature of these financial instruments. The fair value of the Health System's fixed rate bonds is based on quoted market prices for the same or similar issues and approximates $2.0 billion and $1.5 billion as of June 30, 2024 and 2023, respectively, which is a Level 2 measurement. The carrying amount approximates fair value for all other long-term debt, which is variable rate, and excludes the impact of third-party credit enhancements; this is a Level 2 measurement.

Due to the volatility of the financial markets, there is a reasonable possibility of changes in fair value and additional gains and losses in the near term subsequent to June 30, 2024.

7. Property and Equipment

The following is a summary of property and equipment:

	June 30 2024	June 30 2023
Land, land improvements, and leasehold improvements	**$ 397,221**	$ 369,061
Buildings	**4,931,895**	4,778,777
Equipment	**3,285,822**	3,093,926
Construction-in-progress	**280,377**	238,598
	8,895,315	8,480,362
Less accumulated depreciation	**(5,286,178)**	(5,025,283)
Property and equipment, net	**$ 3,609,138**	$ 3,455,079

At June 30, 2024, construction, capital, and software-related contracts and commitments exist for capital improvements at certain of the Health System's facilities. The remaining commitment on these contracts at June 30, 2024, was approximately $134.2 million. During the years ended June 30, 2024 and 2023, interest of $8.9 million and $8.5 million, respectively, was capitalized. The Health System recorded impairment of $11.9 million during the year ended June 30, 2023. No impairment was recorded during the fiscal year ended June 30, 2024.

8. Other Assets and Accrued Liabilities and Other

The following is a summary of other assets:

	June 30 2024	June 30 2023
Right-of-use assets	**$ 254,567**	$ 210,025
Deferred compensation plan assets	**340,764**	295,079
Goodwill	**195,609**	195,609
Investment in unconsolidated affiliates	**131,430**	118,462
Swap collateral	**–**	1,070
Land held for future development	**26,130**	22,130
Other	**35,890**	52,661
	$ 984,390	$ 895,036

8. Other Assets and Accrued Liabilities and Other (continued)

The following is a summary of accrued liabilities and other:

	June 30	
	2024	**2023**
Operating lease liabilities	**$ 52,213**	$ 50,892
Estimated amounts due to third-party payers	**179,684**	172,976
Accrued other expenses	**259,062**	216,153
	$ 490,959	$ 440,021

9. Liability Programs

The Health System administers a liability program to provide for general and professional liability risks within certain limits. The program is self-funded and provides coverage of up to $10.0 million per occurrence with no aggregate. In addition, excess commercial insurance policies are in place to provide coverage of an additional $35.0 million. At June 30, 2024 and 2023, the Health System recorded a liability for the program of $197.6 million and $184.0 million, respectively, which is included in accrued liabilities and other and insurance reserves and other liabilities on the accompanying consolidated balance sheets. In addition, at June 30, 2024 and 2023, the Health System recorded net insurance receivables of $5.8 million and $4.9 million, respectively, which are included in other assets on the accompanying consolidated balance sheets. The recorded liabilities are based upon actuarial estimates of reported and unasserted claims that have occurred but have not been reported using historical claim experience and other relevant industry and hospital-specific factors and trends, discounted at an interest rate of 4.25% and 3.00% for 2024 and 2023, respectively.

10. Employee Retirement Plans

Defined Contribution Plans

The Health System retirement benefits are provided through 401(k) and 403(b) plans covering all eligible employees. All contributions to the plans are subject to IRS limitations on contributions and includable compensation. There are three primary types of contributions to these plans: employee deferrals, employer service-based contributions, and employer matching contributions.

10. Employee Retirement Plans (continued)

Benefits for employer service-based contributions are determined as a percentage of a participant's salary and based on his or her years of service for certain entities. Benefits for employer matching contributions are determined as a percentage of an eligible participant's annual deferrals. These employer contributions are funded annually and become fully vested over three years of vesting service. For the years ended June 30, 2024 and 2023, the total expenses incurred related to these defined contribution plans were $151.3 million and $146.6 million, respectively.

Defined Benefit Plans

The Health System has frozen defined benefit retirement plans. The plans were designed to provide retirement benefits to substantially all coworkers. The plans were cash balance-type formula. The cash balance formula provided an annual pay credit, based on employee compensation and years of service, and an annual 5% interest credit based on the U.S. Treasury bill rates. Coworkers with benefits earned under the cash balance formula continue to earn interest credits each year. The interest credit continues to be based on the U.S. Treasury bill rates. The plans are funded consistent with actuarial funding recommendations and the funding policy.

The Health System has frozen nonqualified defined benefit retirement plans that provide retirement income in excess of the limitations on benefits imposed by IRS limitations to certain key executives.

10. Employee Retirement Plans (continued)

The following table sets forth the frozen defined benefit retirement plans' benefit obligation, fair value of plan assets, and funded status at the measurement date:

	June 30	
	2024	**2023**
Accumulated benefit obligation	**$ 567,142**	$ 599,700
Changes in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 599,700**	$ 648,513
Interest cost	**29,484**	26,162
Actuarial gain	**(12,048)**	(20,468)
Benefits paid	**(49,994)**	(54,507)
Projected benefit obligation at end of year	**567,142**	599,700
Changes in plan assets:		
Fair value of plan assets at beginning of year	**364,629**	375,693
Actual return on plan assets	**31,521**	29,073
Employer contributions	**21,941**	14,370
Benefits paid	**(49,994)**	(54,507)
Fair value of plan assets at end of year	**368,097**	364,629
Funded status	**$ (199,045)**	$ (235,071)

Amounts recognized on the accompanying consolidated balance sheets at June 30 consist of the following:

	2024	**2023**
Accrued liabilities and other	**$ (5,092)**	$ (3,417)
Pension liabilities	**(193,953)**	(231,654)
	$ (199,045)	$ (235,071)

No plan assets are expected to be returned to the Health System during the fiscal year ended June 30, 2025.

10. Employee Retirement Plans (continued)

Included in net assets without donor restrictions are the following amounts that have not yet been recognized in net periodic pension cost:

	Year Ended June 30	
	2024	**2023**
Unrecognized actuarial gain	**$ (232,566)**	$ (272,416)
Prior service cost	**6,018**	7,096
	$ (226,548)	$ (265,320)

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions include the following:

	Year Ended June 30	
	2024	**2023**
Current year actuarial gain	**$ 19,992**	$ 25,901
Amortization of actuarial loss	**6,363**	7,185
Settlement reduction of net actuarial loss	**13,495**	17,219
Amortization of prior service costs	**(1,078)**	(1,078)
	$ 38,772	$ 49,227

The estimated net actuarial loss included in net assets without donor restrictions and expected to be recognized in net periodic pension cost during the year ending June 30, 2025, is $6.1 million. The impact of the change in discount rate on the projected benefit obligation of the plans was a decrease of approximately $10.4 million and $21.5 million for the years ended June 30, 2024 and 2023, respectively.

10. Employee Retirement Plans (continued)

The following is a summary of the components of net periodic pension cost:

	Year Ended June 30	
	2024	**2023**
Interest cost on projected benefit obligation	**$ 29,484**	$ 26,162
Expected return on plan assets	**(23,578)**	(23,641)
Amortization of prior service costs	**(1,078)**	(1,078)
Amortization of unrecognized actuarial loss	**6,363**	7,185
Settlement/curtailment	**13,495**	17,219
Net periodic pension cost	**$ 24,686**	$ 25,847

The components of net periodic pension cost are included in the line item “other, net” on the consolidated statements of operations.

Weighted average assumptions used to determine the plans’ projected benefit obligation and net periodic pension cost are as follows:

	Projected Benefit Obligation		Net Periodic Pension Cost	
	2024	**2023**	**2024**	**2023**
Discount rates	**5.34%–5.35%**	5.08%–5.09%	**5.19%–5.19%**	4.25%–4.28%
Expected long-term return on plan assets	**6.80%–6.80%**	6.50%–6.50%	**6.50%–6.50%**	6.10%–6.10%

10. Employee Retirement Plans (continued)

The plans' weighted average asset allocations and policy allocation range, by asset category, are as follows:

Asset Category	Policy Allocation Range	Plan Assets at June 30 2024	2023
Equity securities	**43%–53%**	**48%**	47%
Debt securities	**33–43**	**35**	36
Real assets	**0–10**	**–**	–
Absolute returns and hedge funds	**3–13**	**9**	13
Cash	**0–10**	**8**	4
Total		**100%**	100%

The plans' assets measured at fair value were determined using the following inputs at June 30, 2024:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	**$ 27,474**	**$ –**	**$ –**	**$ 27,474**
Equity securities:				
Domestic equities	**91,071**	**–**	**–**	**91,071**
Fixed income:				
Mutual funds	**148,742**	**–**	**–**	**148,742**
Other	**–**	**–**	**2,702**	**2,702**
Assets at NAV:				
Hedge funds				**32,065**
Commingled funds				**66,043**
				$ 368,097

10. Employee Retirement Plans (continued)

The plans' assets measured at fair value were determined using the following inputs at June 30, 2023:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 15,523	$ –	$ –	$ 15,523
Equity securities:				
Domestic equities	113,107	–	–	113,107
International equities	2,558	–	–	2,558
Fixed income:				
Corporate bonds	–	100,143	–	100,143
Government and agencies	–	30,539	–	30,539
Other	–	–	2,870	2,870
Assets at NAV:				
Commingled funds				99,687
				$ 364,427

Fair value methodologies for Level 1 and Level 2 assets are consistent with the inputs described in Note 6.

Management opted to use the NAV per share, or its equivalent, as a practical expedient for fair value of the plans' interest in hedge funds and commingled funds. Valuations provided by the respective fund's management include variables such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information. In addition, actual market exchanges at period-end provide additional observable market inputs of the exit price. The majority of these funds have restrictions on the timing of withdrawals, which may reduce liquidity, in some cases for up to 24 months in the case of hedge funds and up to 10 years for private limited partnership funds.

10. Employee Retirement Plans (continued)

The plans retain outside consultants to support the overall asset allocation and manager selection process. The performance of all managers is reviewed to test that market performance has been calculated accurately, to monitor performance vs. peers and benchmarks, and to evaluate portfolio structure considering current and future needs based on economic forecasts and actuarial projections. Mercy believes that a diversified portfolio will limit the degree of risk to the plans and stabilize the long-term results. The plans' diversified blend of marketable securities also takes into consideration the cash flow requirements of the plans to help ensure the ability to meet the monthly payout of benefits required. Projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category.

The Health System expects to contribute at least $21 million to the plans during fiscal 2025.

The following benefit payments, which reflect expected future service, are expected to be paid by the plans:

	Amount
Year ending June 30:	
2025	$ 62,100
2026	61,400
2027	58,400
2028	54,400
2029	52,400
2030 through 2034	217,100
	$ 505,800

11. Long-Term Obligations

The following is a summary of long-term obligations:

	June 30	
	2024	**2023**
Revenue bonds, fixed interest rates of 2.00%–6.00% due through 2053	**$ 1,991,480**	$ 1,542,230
Revenue bonds, variable interest rates with weighted average interest rates of 4.69% and 3.82% in fiscal 2024 and 2023, respectively, due through June 2053	**371,900**	373,440
Financing lease obligations	**238,797**	241,242
Other mortgage notes and notes	**7,761**	2,412
	2,609,938	2,159,324
Less current maturities of long-term obligations	**(63,939)**	(29,558)
Add unamortized debt issuance costs and debt premiums, net	**42,823**	43,595
Long-term obligations, less current maturities	**$ 2,588,822**	$ 2,173,361

Certain of Mercy's subsidiaries have executed a commitment agreement governing certain borrowing arrangements under the Mercy Master Trust Indenture and related agreements (Financing Agreements). While only the revenues of Mercy collateralize the outstanding borrowings of the Health System, each of these subsidiaries has committed to transfer such funds to Mercy to pay the amounts due on borrowings when they come due. The Financing Agreements contain certain restrictive covenants, including a debt service coverage ratio. At June 30, 2024, Mercy was in compliance with all covenants.

Tax-exempt revenue bonds have been issued by various issuing authorities, the proceeds of which were used by Mercy primarily to finance capital projects and to refinance existing indebtedness of certain subsidiaries.

11. Long-Term Obligations (continued)

In June 2021, $76.4 million of variable rate, tax-exempt health facility revenue bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of Mercy under the Master Trust Indenture. The proceeds were used to refinance the Series 2017AB bonds. The bonds were directly purchased by one bank and have a final maturity of 2053. Interest is paid monthly at a borrowing rate based on a percentage of one-month LIBOR plus an applicable spread. The bonds include mandatory puts by the purchasing bank in 2026. Mercy may elect to renegotiate with the initial purchasers, remarket, or redeem the bonds at any time. Other notes payable, mortgage notes payable, and financing lease obligations are secured by certain property and equipment of the specific borrowers.

In August 2022, $374.9 million of variable rate, tax-exempt health facility revenue bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of Mercy under the Master Trust Indenture. The proceeds were used to refinance the Series 2014BC and Series 2021AB bonds. The bonds were directly purchased by two banks. No change was made to the principal amount or original maturity dates scheduled through February 1, 2053. Mandatory put dates by the purchasing banks originally scheduled between June 2023 and June 2026 were extended from August 2029 to August 2032. Interest paid monthly reflects a borrowing rate based on an adjusted percentage of one-month term Secured Overnight Financing Rate plus an adjusted applicable spread. Mercy may elect to renegotiate with the initial purchasers or remarket or redeem the bonds.

In September 2023, $296.4 million of fixed rate, tax-exempt health facility revenue bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of Mercy under the Master Trust Indenture. The proceeds were used to reimburse Mercy for project costs and to pay certain costs related to issuance. The bonds have various maturities between December 1, 2040 and December 1, 2052. Most of the bonds were sold to institutional investors.

In December 2023, Mercy issued replacement master notes under its Master Trust Indenture in replacement of and substitution for master notes previously issued by SoutheastHEALTH (Series 2016A, Series 2016B, Series 2017A, Series 2017B, and Series 2021A bonds), which are all fixed rate bonds with varying maturities through March 2046. Terms of the indentures require that certain funds be established with the trustees for the Series 2016A, Series 2016B, Series 2017A, Series 2017B, and Series 2021A bonds. Accordingly, these funds are included in investments in the consolidated financial statements.

11. Long-Term Obligations (continued)

Aggregate maturities of long-term obligations as scheduled at June 30, 2024, are as follows:

Year ending June 30:	
2025	$ 63,939
2026	56,054
2027	56,007
2028	54,614
2029	56,968
Thereafter	2,322,356
	$ 2,609,938

The Health System has a total of $425.0 million of unused lines of credit with four banks, all of which terminate in November 2025. During 2024 and 2023, the Health System had no borrowings against the lines of credit. There were no borrowings outstanding under these lines of credit as of June 30, 2024 or 2023.

12. Derivatives

The Health System has interest-rate-related derivative instruments to manage its interest rate exposure on its variable rate debt instruments and does not enter into derivative instruments for any purpose other than risk management. Interest rate swap contracts between the Health System and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate. These agreements expose the Health System to market risk and credit risk. Credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties which have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the Health System's counterparties. The Health System will enter into transactions where the counterparty rating is high enough to maintain the rating on Health System bonds. The interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk. As of June 30, 2024 and 2023, Mercy had collateral posted of $0 million and $1.07 million, respectively. The Health System does not anticipate nonperformance by its counterparties. Market risk is the

12. Derivatives (continued)

adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of the Health System's derivative positions in the context of its blended cost of capital.

The following is a summary of the outstanding positions under these interest rate swap agreements:

Interest Rate Swap Type	Expiration Date	Health System Pays	Health System Receives	Notional Value June 30 2024	2023
Fixed payer	June 2, 2031	3.360%–3.750%	70% of one-month LIBOR	**$ 252,200**	$ 252,200
Fixed payer	June 2, 2031	3.850%	70% of one-month LIBOR	**50,000**	50,000
Fixed payer	February 1, 2043	1.847%	67% of one-month LIBOR	**73,440**	73,440

The fair value of derivative instruments is as follows:

Derivatives Not Designated as Hedging Instruments	Consolidated Balance Sheet Location	June 30 2024	2023
Collateral posted on interest rate swap agreements	Other assets	**$ –**	$ 1,070
Interest rate swap agreements	Other liabilities	**662**	4,880

The effects of derivative instruments on the accompanying consolidated statements of operations for the years ended June 30, 2024 and 2023, are reflected in realized and unrealized gains on interest rate swaps on the accompanying consolidated statements of operations.

13. Leases

The Health System leases certain health care equipment, vehicles, and real property. Most leases include options to renew, index and non-index escalation clauses, and options to purchase the leased property, all of which are factored into the determination of lease payments when appropriate.

13. Leases (continued)

For leases with a term greater than 12 months, the Health System records the related right-of-use assets and liabilities at the present value of lease payments over the term of the lease. Lease payments are discounted using a municipal taxable yield curve utilizing A ratings. The Health System separates lease and non-lease components for real property. For all other classes of assets, the Health System has elected not to separate lease and non-lease components.

The Health System elected not to apply the recognition requirements of ASC 842 to short-term leases. The Health System recognizes short-term lease payments in excess of revenues over expenses on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred. The Health System also elected the package of transition provisions available that allowed carryforward of the historical assessment of (1) whether contracts are or contain leases, (2) lease classification, and (3) initial direct costs.

Operating and finance lease right-of-use assets and lease liabilities as of June 30 were as follows:

	2024	2023
Operating leases		
Right-of-use assets:		
Other assets	**$ 254,567**	$ 210,025
Lease liabilities:		
Other current liabilities	**$ 52,213**	$ 50,892
Insurance reserves and other liabilities	**212,855**	175,687
Total operating lease liabilities	**$ 265,068**	$ 226,579
Finance leases		
Right-of-use assets:		
Property and equipment, net	**$ 230,851**	$ 232,043
Lease liabilities:		
Current maturities of long-term obligations	**$ 21,646**	$ 21,054
Long-term obligations, less current maturities	**217,151**	220,188
Total finance lease liabilities	**$ 238,797**	$ 241,242

13. Leases (continued)

The amounts relating to the Health System's lease expense for the years ended June 30 are as follows:

Lease Type	Classification	2024	2023
Operating lease costs	Supplies and other	**$ 68,744**	$ 70,119
Short-term lease costs	Supplies and other	**1,168**	448
Financing lease interest	Interest	**8,074**	7,859
Financing lease amortization	Depreciation and amortization	**19,502**	19,507
Variable lease costs	Supplies and other	**7,201**	6,267
Total lease costs		**$ 104,689**	$ 104,200

Cash paid for amounts included in the measurement of lease liabilities for the years ended June 30 is as follows:

	2024	2023
Operating cash flows for operating leases	**$ 128,018**	$ 133,975
Operating cash flows for finance leases	**7,922**	7,859
Financing cash flows for finance leases	**22,194**	19,830
Total	**$ 158,134**	$ 161,664

Right-of-use assets obtained in exchange for new leases obligations for the years ended June 30 are as follows:

	2024	2023
Operating leases	**$ 97,350**	$ 70,053
Finance leases	**21,109**	8,409
Total	**$ 118,459**	$ 78,462

13. Leases (continued)

The aggregate future lease payments for operating and finance leases as of June 30, 2024, were as follows:

	Operating	Finance
2025	$ 60,834	$ 29,232
2026	45,036	22,532
2027	38,585	19,828
2028	31,910	15,967
2029	27,378	15,905
Thereafter	100,697	203,484
Total lease payments	304,440	306,948
Less interest	(39,372)	(68,151)
Lease liabilities	$ 265,068	$ 238,797

Average lease terms and discount rates at June 30 were as follows:

	2024	2023
Weighted average remaining lease term (years):		
Operating leases	**7.36**	7.57
Finance leases	**14.79**	15.65
Weighted average discount rate:		
Operating leases	**3.73%**	2.99%
Finance leases	**5.09**	5.85

14. Functional Classification of Expenses

The Health System provides general health care services to residents within communities served, including acute inpatient, subacute inpatient, outpatient, ambulatory, long term, and home care. Administrative services include administration, finance and accounting, integrated marketing, human resources, and other functions. Expenses are allocated to health care services or administrative services based on the functional department for which they are incurred. Department expenses may include various allocations of costs based on direct assignment, expenses, or other methods.

14. Functional Classification of Expenses (continued)

Expenses by functional classification for the years ended June 30 consist of the following:

	2024		
	Health Care Services	**General and Administration**	**Total**
Salaries and benefits	**$ 4,920,643**	**$ 204,466**	**$ 5,125,109**
Supplies and other	**3,203,590**	**157,718**	**3,361,308**
Medical claims expense	**199,199**	**–**	**199,199**
Interest	**11,691**	**82,035**	**93,726**
Depreciation and amortization	**326,774**	**3,326**	**330,100**
	$ 8,661,897	**$ 447,545**	**$ 9,109,442**

	2023		
	Health Care Services	**General and Administration**	**Total**
Salaries and benefits	$ 4,403,027	$ 156,340	$ 4,559,367
Supplies and other	2,819,719	116,286	2,936,005
Medical claims expense	102,682	–	102,682
Interest	7,693	67,537	75,230
Depreciation and amortization	309,533	4,799	314,332
Impairment and severance	–	18,979	18,979
	$ 7,642,654	$ 363,941	$ 8,006,595

15. U.S. Department of Education Financial Responsibility Ratio Information

The following information is required by the U.S. Department of Education for the year ended June 30, 2024:

Net assets with donor restrictions: restricted in perpetuity	$ 34,252
Net assets with donor restrictions: other for purpose or time	187,304
Net assets with donor restrictions	$ 221,556
Property and equipment, net:	
Property and equipment, net, including construction-in-progress beginning balance	$ 3,455,079
Property and equipment, net – ending balance with outstanding debt for original purchase	296,400
Property and equipment, net – ending balance without outstanding debt for original purchase	(142,341)
Total property and equipment, net (including construction-in-progress)	$ 3,609,138
Interest cost	$ 29,484
Expected earnings on plan assets	(23,578)
Amortization of prior service costs	(1,078)
Amortization of unrecognized actuarial loss	6,363
Settlement/curtailment	13,495
Other components of net periodic pension cost	$ 24,686
Total expenses without donor restrictions	$ 9,109,442
Other nonoperating expense	317,805
Other components of net periodic pension cost	24,686
Total expense and losses without donor restrictions	$ 9,451,933
Total revenues without donor restrictions	$ 9,266,825
Investment earnings, net	348,643
Other nonoperating revenue and other gains:	
Other gains change in value of interest rate swaps	6,288
Pension-related changes other than net periodic costs	38,772
Total nonoperating revenue and other gains	45,060
Total revenues and gains without donor restrictions	$ 9,660,528

16. Commitments and Contingencies

Regulatory Compliance

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of health care providers. The Health System is not exempt from these regulatory efforts and has received correspondence from federal agencies with regard to such initiatives. In consultation with legal counsel, management estimates these matters will be resolved without a material adverse effect on the Health System's consolidated financial position or results of operations.

Litigation

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

17. Subsequent Events

The Health System evaluated events and transactions occurring subsequent to June 30, 2024 through September 18, 2024, the date the accompanying consolidated financial statements were issued.

Effective September 1, 2024, the Health System closed on a change in sponsorship with Ascension Health and acquired Ascension Via Christi Hospital, a not-for-profit hospital in Pittsburg, Kansas, which will operate as Mercy Hospital Pittsburg. The acquisitions provided the Health System's patients with access to a greater number of physicians and enhanced the coordination of health services.

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