

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2023 and 2022
(Dollar amounts in thousands)

Weighted-average assumptions used to determine projected benefit obligations and net periodic benefit costs were as follows:

	June 30,			
	2023	2023	2022	2022
	The Plan	TN Plan	The Plan	TN Plan
Projected benefit obligation:				
Discount rate	5.20%	4.80%	4.55%	4.25%
Rates of increase in compensation levels:				
Service:				
<11	12.00%	N/A	12.00%	N/A
11<21	4.50%	N/A	4.50%	N/A
21=<	2.50%	N/A	2.50%	N/A
Measurement Date	June 30	June 30	June 30	June 30
	June 30,			
	2023	2023	2022	2022
	The Plan	TN Plan	The Plan	TN Plan
Net periodic benefit cost:				
Discount rate	4.55%	4.25%	2.50%	2.25%
Expected long-term return on plan assets	6.25%	6.75%	6.50%	6.12%
Rate of increase in compensation levels:				
Service:				
<11	12.00%	N/A	8.00%	N/A
11<21	4.50%	N/A	5.00%	N/A
21=<	2.50%	N/A	3.00%	N/A

The defined benefit pension plan asset allocation as of the measurement date and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	June 30,				
	2023	2023	2022	2022	Target
	The Plan	TN Plan	The Plan	TN Plan	Allocations
Debt securities	40%	54%	36%	67%	25% - 50%
Equity securities	42%	-	46	33	30% - 65%
Alternative investments	16%	-	13	-	20% - 30%
Cash and cash equivalents	2%	46%	5	-	-% - 5%
Total	100%	100%	100%	100%	

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The Health System's defined benefit plan invests in a diversified mix of traditional asset classes. Investments in U.S. equity securities and fixed income securities are made to maximize long-term results while recognizing the need for adequate liquidity to meet ongoing benefit and administrative obligations. Risk tolerance of unexpected investment and actuarial outcomes is continually evaluated by understanding the pension plan's liability characteristics. This is performed through forecasting and assessing ranges of investment outcomes over short-term and long-term horizons, and by assessing the Health System's financial condition and its future potential obligations from both the pension and general operational requirements. Complementary investment styles, such as growth and value equity investing techniques, are utilized by the Health System's investment advisors to further improve portfolio and operational risk characteristics. Equity investments, both actively and passively managed, are used primarily to increase overall plan returns. Fixed income investments provide diversification benefits and liability hedging attributes that are desirable, especially in falling interest rate environments.

Asset allocations and investment performance are formally reviewed at regularly scheduled meetings of the Health System's Financial Resources Committee.

The overall rate of expected return on assets assumption was based on historical returns, with adjustments made to reflect expectations of future returns. The extent to which the future expectations were recognized included the target rates of return for the future, which have not historically changed.

The fair values of assets as of June 30, by asset category (see Note 8 for a description of the asset categories), are as follows:

	June 30, 2023			
	Total	Level 1	Level 2	Level 3
Assets - The Plan				
Investments at fair value:				
Cash and cash equivalents	\$ 9,848	\$ 9,848	\$ -	\$ -
Fixed income	46,113	16,984	29,129	-
Equities and equity funds	75,038	75,038	-	-
Total	130,999	<u>\$ 101,870</u>	<u>\$ 29,129</u>	<u>\$ -</u>
Private placement funds (at NAV):				
Hedge funds	24,157			
Total	<u>\$ 155,156</u>			
	June 30, 2023			
	Total	Level 1	Level 2	Level 3
Assets - TN Plan				
Investments at fair value:				
Cash and cash equivalents	\$ 6,980	\$ 6,980	\$ -	\$ -
Bond mutual funds	8,086	8,086	-	-
Total	<u>\$ 15,066</u>	<u>\$ 15,066</u>	<u>\$ -</u>	<u>\$ -</u>

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June 30, 2022				
	Total	Level 1	Level 2	Level 3
Assets - The Plan				
Investments at fair value:				
Cash and cash equivalents	\$ 7,491	\$ 7,491	\$ -	\$ -
Fixed income	55,699	24,332	31,367	-
Equities and equity funds	71,224	71,224	-	-
Total	134,414	<u>\$ 103,047</u>	<u>\$ 31,367</u>	<u>\$ -</u>
Private placement funds (at NAV):				
Hedge funds	20,005			
Total	<u>\$ 154,419</u>			
June 30, 2022				
	Total	Level 1	Level 2	Level 3
Assets - TN Plan				
Investments at fair value:				
Cash and cash equivalents	\$ 121	\$ 121	\$ -	\$ -
Bond mutual funds	11,319	11,319	-	-
Equity mutual funds	5,676	5,676	-	-
Total	<u>\$ 17,116</u>	<u>\$ 17,116</u>	<u>\$ -</u>	<u>\$ -</u>

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Fixed income: The fair value is estimated using quoted prices for similar assets in active markets or quoted prices for identical or similar assets in non-active markets (few transactions, limited information, noncurrent prices, and high variability over time).

Equities/equity funds: The fair value is determined by market quotes for an identical security in an observable market.

Hedge Funds: The fair value of private placement funds has been determined using the net asset value (“NAV”) of the funds as provided by the respective fund managers. The NAV is used as a practical expedient to estimate fair value and is excluded from the fair value hierarchy. The underlying investments of these funds consist of securities with readily determinable market value and other hedge funds and private placement funds.

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The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Health System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Cash Flows

The Health System does not expect to make voluntary contributions to the Plan, for the year ending June 30, 2024. The Health System expects to contribute the amount of \$404 to the TN plan, for the year ended June 30, 2024. This funding level exceeds any regulatory requirements. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for the years ending June 30:

	The Plan	TN Plan
2024	\$ 8,545	\$ 15,470
2025	9,921	-
2026	10,451	-
2027	11,287	-
2028	11,765	-
2029 - 2033	67,480	-

Defined Contribution Plans

The Health System has a 403(b) defined contribution savings plan that includes all full-time and part-time employees. The Health System matches participant contributions for active participants as of December 31 who have completed at least 975 hours of service during the calendar year. The match is 25% of the first 1% of compensation for participants with 1 - 15 years of service and 50% of the first 2% for participants with more than 15 years of service. The Health System's contribution expense for the years ended June 30, 2023 and 2022 was \$2,398 and \$2,219, respectively.

The Health System has a jointly owned split dollar agreement with a key executive through an insurance company. Total funding as of June 30, 2023 and 2022, was \$4,381 and \$4,283, respectively which is recorded in other assets on the consolidated balance sheet. The value held by the insurance company along with additional security on the policy is collateral held to secure the return on the Health System's funding plus interest. The agreements allow for the key executives to borrow specified amounts to be repaid by the proceeds of the life insurance policies. Any remaining death proceeds are distributed to the executive's beneficiary as agreed upon by the parties.

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NOTE 14 - COMMITMENTS AND CONTINGENCIES***Self-Insurance Liabilities and Litigation***

DPIC provides Primary Medical Professional Liability (“MPL”) and Primary General Liability (“GL”) coverage to the Health System and its employed physicians on a mature claims-made basis. The primary MPL policy provides limits of liability of \$2,000 per occurrence with an \$8,000 annual aggregate. The primary GL policy provides limits of liability of \$1,000 per occurrence with a \$3,000 annual aggregate. The employed physicians are covered with retro dates consistent with their date of hire. This policy is retrospectively rated.

DPIC provides excess umbrella liability coverage on a mature claims-made basis with a retroactive date of March 1, 2005. The excess MPL coverage follows the form of the underlying MPL coverage providing a total of \$35,000 limits of liability. The umbrella liability coverage provides \$35,000 limits of liability in excess of scheduled underlying coverages. The excess umbrella liability coverage is 100% reinsured with an unrelated commercial insurance company for the first \$10,000 limit and another unrelated commercial insurance company for the second \$15,000 limit.

DPIC assumed the MPL and GL coverage previously included under the Health System’s self-insurance plan (the “LPT”), for incidents occurring between March 1, 1986 and June 30, 2013 for MPL and for occurrences between March 1, 2004 and June 30, 2013 for GL, that were reported to TPR prior to June 30, 2013. The policy provides MPL coverage limits varying from \$1,000 to \$2,000 per occurrence, with policy aggregates varying from \$3,000 to \$8,000. The policy provides GL coverage limits of \$1,000 per occurrence and \$3,000 annual aggregates.

DPIC also provides employee benefit plan stop loss coverage to the Health System on a claims-made basis. DPIC covers liability in excess of \$350 per covered person with a \$100 deductible. DPIC’s liability above \$250 is fully reinsured with an unrelated commercial reinsurance company.

The reserve for reported professional liability claims and claims incurred but not reported (“IBNR”) are reported gross of expected insurance recoveries. The reserves for reported claims and claims IBNR are reported within the self-insured liabilities in the consolidated balance sheets. In addition, the expected insurance recoveries are reported as reinsurance receivable in other assets in the consolidated balance sheets.

The loss reserves are management’s best estimate based on actuarial estimates of the ultimate net cost of settling losses on incurred claims. The estimates are reviewed and adjusted, as necessary, as experience develops or new information becomes known. Management believes that the loss reserves are adequate; however, the ultimate settlement of losses may vary significantly from the amounts recorded in the accompanying consolidated financial statements.

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Accrued claims activity related to MPL, GL and employee benefit plan, is as follows:

	Years ended June 30,	
	2023	2022
Accrued claims and IBNR - beginning of the year	\$ 33,911	\$ 25,109
Less: reinsurance receivable	<u>(12,804)</u>	<u>(6,796)</u>
Accrued claims and IBNR, net - beginning of the year	21,107	18,313
Incurred related to:		
Current year	6,350	4,700
Prior year	<u>3,591</u>	<u>(231)</u>
Total incurred	9,941	4,469
Paid related to:		
Current year	(7)	(23)
Prior year	<u>(6,941)</u>	<u>(1,652)</u>
Total paid	<u>(6,948)</u>	<u>(1,675)</u>
Accrued claims and IBNR, net - end of the year	24,100	21,107
Add: reinsurance receivable	<u>9,190</u>	<u>12,804</u>
Accrued claims and IBNR - end of the year	<u>\$ 33,290</u>	<u>\$ 33,911</u>

The Health System is also self-insured for workers' compensation up to an annual limit of \$500 per occurrence. The Health System carries an excess liability insurance policy for workers' compensation claims above this limit. As of June 30, 2023 and 2022, \$4,546 and \$4,314, respectively, have been reserved for workers' compensation loss contingencies.

The Health System has been named as a defendant in various lawsuits arising from the performance of its normal activities. In the opinion of the Health System's management, after discussion with legal counsel, the amount, if any, of the Health System's ultimate liability under these lawsuits will not have a material adverse effect on the consolidated financial statements.

A portion of the Health System's revenues is received from health maintenance organizations and other managed care payors. Managed care payors generally use case management activities to control utilization. These payors also have the ability to select providers offering the most cost-effective care. Management does not believe that the Health System has undue exposure to any one managed care payor.

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NOTE 15 - NET ASSETS WITH DONOR RESTRICTIONS

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

	June 30,	
	2023	2022
Subject to expenditure for specific purpose or time:		
Capital purposes	\$ 30,420	\$ 27,767
Patient services	18,769	20,608
Educational purposes	7,967	6,698
	<u>57,156</u>	<u>54,073</u>
Investments to be held in perpetuity, the income from which is expendable to support health care services	8,560	8,544
	<u>8,560</u>	<u>8,544</u>
Total	<u>\$ 65,716</u>	<u>\$ 62,617</u>

NOTE 16 - CONCENTRATIONS OF CREDIT RISK

The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of accounts receivable from patients and third-party payors is as follows:

	Years ended June 30,	
	2023	2022
Medicare	54%	52%
Medicaid	21	19
Managed care	12	14
CareFirst Blue Cross Blue Shield	11	12
Other, including self-pay	2	3
	<u>100%</u>	<u>100%</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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(Dollar amounts in thousands)

NOTE 17 - FUNCTIONAL EXPENSES

The Health System considers health care services and general and administrative to be its primary functional categories for purposes of expense classification. The operating expenses by functional classification:

	Year ended June 30, 2023		
	Health Care Services	General and Administrative	Total
Salaries and wages	\$ 356,186	\$ 43,511	\$ 399,697
Supplies and other expenses	290,005	34,378	324,383
Employee benefits	69,873	8,624	78,497
Depreciation and amortization	35,195	4,240	39,435
Interest	6,132	738	6,870
	\$ 757,391	\$ 91,491	\$ 848,882
	Year ended June 30, 2022		
	Health Care Services	General and Administrative	Total
Salaries and wages	\$ 333,890	\$ 40,633	\$ 374,523
Supplies and other expenses	280,759	33,401	314,160
Employee benefits	68,917	8,416	77,333
Depreciation and amortization	39,667	4,778	44,445
Interest	6,326	761	7,087
	\$ 729,559	\$ 87,989	\$ 817,548

NOTE 18 - SUBSEQUENT EVENTS

The Health System has evaluated its June 30, 2023 consolidated financial statements for subsequent events through October 27, 2023, the date the consolidated financial statements were issued. Management is not aware of any subsequent events excepts as disclosed in Note 13 which require recognition or disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION