Mercy Health Services, Inc. and Subsidiaries

Independent Auditor’s Report, Consolidated Financial Statements, and Supplementary Financial Information

June 30, 2024 and 2023

Mercy Health Services, Inc. and Subsidiaries
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June 30, 2024 and 2023

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Independent Auditor's Report

Board of Trustees
Mercy Health Services, Inc. and Subsidiaries
Baltimore, MD

Opinion

We have audited the accompanying consolidated financial statements of Mercy Health Services, Inc. and Subsidiaries, 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 to the consolidated financial statements.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mercy Health Services, Inc. and Subsidiaries, as of June 30, 2024 and 2023 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in United States of America.

We did not audit the financial statements of Greenleaf Insurance Company, Ltd., a wholly-owned subsidiary, which statements reflect total assets constituting 14% & 12% of Mercy Health Services, Inc. and Subsidiaries' consolidated total assets as of June 30, 2024 and 2023, respectively. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Greenleaf Insurance Company, Ltd, is based solely on the report of the other auditors.

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 Consolidated Financial Statements section of our report. We are required to be independent of Mercy Health Services, Inc. and Subsidiaries 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with 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 consolidated 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mercy Health Services, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mercy Health Services, Inc. and Subsidiaries' 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.

Report on Supplementary Financial Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 48 to 55 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to Greenleaf Insurance Company, Ltd. is based on the report of other auditors, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Forvis Mazars, LLP

Charleston, WV
September 11, 2024

Mercy Health Services, Inc. and Subsidiaries
Consolidated Balance Sheets
June 30, 2024 and 2023
(in thousands)

	2024	2023
ASSETS		
Current Assets		
Cash and cash equivalents	$ 269,820	$ 261,559
Short-term investments	1,815	1,778
Current portion of funds held by trustee -- *Note 6*	5,551	13,427
Resident prepayment deposits	1,085	797
Patient accounts receivable, net -- *Note 3*	96,788	80,464
Other amounts receivable, net	820	4,734
Current pledges receivable, net -- *Note 4*	2,789	2,595
Supplies inventory	13,498	14,867
Other current assets	2,590	3,535
Total current assets	394,756	383,756
Property and Equipment, Net -- *Note 5*	548,051	543,499
Investments and Other Assets		
Funds held by trustee, less current portion -- *Note 6*	1,914	1,601
Board designated and donor restricted cash and investments -- *Note 7*	351,290	318,933
Assets held for self-Insurance -- *Note 7*	173,912	145,191
Long-term pledges receivable, net -- *Note 4*	20,785	21,815
Investments in and advances to affiliates -- *Note 8*	5,651	4,564
Reinsurance receivable -- *Note 10*	6,951	6,335
Right of use assets -- *Note 24*	43,713	40,302
Other assets -- *Note 9*	3,574	3,626
Total assets	$ 1,550,597	$ 1,469,622

Mercy Health Services, Inc. and Subsidiaries
Consolidated Balance Sheets
June 30, 2024 and 2023
(in thousands)

	2024	2023
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current portion of long-term debt -- *Note 11*	$ 12,935	$ 12,508
Accounts payable and accrued expenses	143,314	149,268
Advances from third-party payers	21,716	22,791
Resident prepayment deposits	1,351	964
Provision for outstanding losses, current -- *Note 10*	7,377	6,889
Operating lease liability, current -- *Note 24*	3,841	4,012
Total current liabilities	190,534	196,432
Long-term debt, less current portion -- *Note 11*	346,225	359,674
Provision for outstanding losses, long-term -- *Note 10*	148,483	132,589
Post-retirement obligation -- *Note 14*	5,534	5,779
Interest rate swap liabilities -- *Note 11*	4,286	6,529
Operating lease liabilities -- *Note 24*	42,275	38,039
Other long-term liabilities -- *Note 23*	3,256	4,283
Total liabilities	740,593	743,325
Net Assets		
Without donor restrictions	752,609	673,290
With donor restrictions -- *Note 16*	57,395	53,007
Total net assets	810,004	726,297
Total liabilities and net assets	$ 1,550,597	$ 1,469,622

Mercy Health Services, Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended June 30, 2024 and 2023
(in thousands)

	2024	2023
Revenue		
Patient service revenue	$ 929,205	$ 886,731
Other operating revenue	52,526	47,068
Net assets released from restriction used for operations	5,815	3,476
Total revenue	987,546	937,275
Expenses -- *Note 19*		
Salaries and benefits	536,072	509,795
Medical and surgical supplies	81,314	76,865
Pharmacy supplies	89,146	80,469
Other expendable supplies	39,225	39,237
Professional fees	22,712	22,457
Insurance	31,263	22,094
Other purchased services	65,320	63,214
Interest expense	13,688	13,255
Repairs	23,318	19,890
Depreciation and amortization	43,633	43,235
Total expenses	945,691	890,511
Operating Income	41,855	46,764
Other Income (Losses)		
Investment income -- *Note 7*	13,136	2,985
Net unrealized gains on investments -- *Note 7*	20,980	23,445
Unrealized gains on interest rate swaps -- Note 11	2,243	4,872
Equity earnings in joint ventures -- *Note 8*	775	1,000
Other	67	(384)
Net other income	37,201	31,918
Excess of Revenues Over Expenses	79,056	78,682
Changes to Pension and Post Retirement Plan Obligations -- *Notes 14 and 15*	35	966
Federal Grant Funding for the Purchase of Property and Equipment	-	251
Net Assets Released from Restrictions for the Purchase of Property and Equipment	228	128
Increase in net assets without donor restrictions	$ 79,319	$ 80,027

Mercy Health Services, Inc. and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2024 and 2023
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, June 30, 2022	$ 593,263	$ 47,752	$ 641,015
Excess of revenue over expenses	78,682	-	78,682
Net assets released from restrictions for the purchase of property and equipment	128	(128)	-
Federal grant funding for the purchase of property and equipment	251	(251)	-
Investment loss on net assets with donor restrictions	-	675	675
Restricted gifts, bequests and contributions	-	8,435	8,435
Changes to pension and post retirement plan obligations	966	-	966
Net assets released from restrictions used for operations	-	(3,476)	(3,476)
Change in net assets	80,027	5,255	85,282
Net assets, June 30, 2023	673,290	53,007	726,297
Excess of revenue over expenses	79,056	-	79,056
Net assets released from restrictions for the purchase of property and equipment	228	(228)	-
Investment Income on net assets with donor restrictions	-	1,694	1,694
Restricted gifts, bequests and contributions	-	8,737	8,737
Changes to pension and post retirement plan obligations	35	-	35
Net assets released from restrictions used for operations	-	(5,815)	(5,815)
	79,319	4,388	83,707
Net assets, June 30, 2024	$ 752,609	$ 57,395	$ 810,004

Mercy Health Services, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2024 and 2023
(in thousands)

	2024	2023
Operating Activities		
Change in net assets	$ 83,707	$ 85,282
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	43,633	43,235
Amortization of debt issuance cost, premiums and discounts	(119)	(106)
Gain on interest rate swaps	(2,243)	(4,872)
Gain on asset disposal	-	(38)
Realized and unrealized gain on investments	(27,709)	(22,231)
Restricted gifts, bequests, and contributions and restricted net income	(10,431)	(8,435)
Federal grant funding for the purchase of property and equipment	-	(251)
Increase (decrease) in		
Patient accounts receivable, net	(16,324)	(3,325)
Other amounts receivable, net	3,298	3,490
Inventory	1,369	1,638
Other assets	1,096	442
Trading portfolio	(24,193)	6,418
Increase (decrease) in		
Accounts payable and accrued expenses	(8,116)	(20,469)
Medicare advance contract liability	-	(15,209)
Provision for outstanding losses	16,382	7,711
Operating leases	654	(2,650)
Post-retirement obligation	(245)	(1,132)
Other long-term liabilities	(1,027)	531
Net cash and cash equivalents provided by operating activities	59,732	70,029
Investing Activities		
Purchases of investments	(60,283)	(68,144)
Sales of investments	34,891	39,955
Purchases of property and equipment	(48,185)	(41,338)
Net cash and cash equivalents used in investing activities	(73,577)	(69,527)

Mercy Health Services, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2024 and 2023
(in thousands)

	2024	2023
Financing Activities		
Proceeds from restricted gifts, bequests, contributions and restricted net income	$ 11,267	$ 7,154
Proceeds from federal grants	-	251
Repayment of long term debt	(12,903)	(11,596)
Net cash and cash equivalents used in financing activities	(1,636)	(4,191)
Net Decrease in Cash, Cash Equivalents and Restricted Cash	(15,481)	(3,689)
Cash, Cash Equivalents and Restricted Cash, Beginning of Year	314,957	318,646
Cash, Cash Equivalents and Restricted Cash, End of Year	$ 299,476	$ 314,957
Cash Paid for Interest	$ 13,619	$ 13,306

Note 1. Organization and Summary of Significant Accounting Policies

Organization, Basis of Presentation and Principles of Consolidation

Mercy Health Services, Inc. (MHS) was formed for the purpose of supporting, benefiting, or carrying out some or all of the purposes of Mercy Medical Center, Inc. (Medical Center or MMC), Stella Maris, Inc. (SMI), the physician practice groups comprising the Physician Enterprise (as further described below) and Mercy Health Foundation (MHF). MHS is the sole member of the Medical Center, SMI, the Physician Enterprise and MHF. MHS prepares its consolidated financial statements on the accrual basis of accounting. The accompanying consolidated financial statements include MMC, SMI, the Physician Enterprise and MHF. All material intercompany balances and transactions have been eliminated.

Mercy Medical Center, Inc.

The Medical Center, a subsidiary of MHS, provides inpatient, outpatient and emergency care services primarily for the citizens of the Baltimore metropolitan area. In addition, the following entities are wholly owned subsidiaries of the Medical Center:

Name of Subsidiary	Tax Status
Mercy Transitional Care Services, Inc. (MTC) *Provider of subacute services*	Tax Exempt
Greenleaf Insurance Company, Ltd. (GIC) *Provider of self-insured general and malpractice coverage to MHS*	Foreign Subsidiary

Stella Maris, Inc.

SMI, a subsidiary of MHS, is the sole member of the Stella Maris Operating Corporation, as well as the Cardinal Shehan Center, Incorporated (CSC). SMI provides sub-acute, hospice, long-term care, skilled homecare, personal care and adult day care to patients in the central Maryland service area within its 412-bed facility. CSC is engaged in maintaining and providing care and housing of aged and infirmed persons. CSC owns St. Elizabeth Hall, a 200-unit apartment complex for the elderly.

Physician Enterprise

The Physician Enterprise includes Maryland Family Care, Inc. (MFC), St. Paul Place Specialists, Inc. (SPPS) and Maryland Specialty Services, LLC (MSS). MSS is the sole member of Lutherville Hematology and Oncology, LLC and North Calvert Anesthesiology Services, LLC, and is the sole stockholder of Vascular Specialty Services, Inc. These entities provide primary care and specialty services within the Baltimore area. MFC, SPPS and MSS are wholly owned/controlled subsidiaries of MHS.

Mercy Health Foundation, Inc.

MHF, a subsidiary of MHS, was formed to coordinate and strengthen the fundraising function on behalf of MHS.

Income Taxes

MHS, MMC, SMI, MFC, SPPS, MHF, MTC, CSC and MSS are not-for-profit organizations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and are, therefore, not subject to federal income tax under current income tax regulations. MHS subsidiaries otherwise exempt from federal and state taxation are nonetheless subject to taxation at corporate tax rates at both the federal and state level on their unrelated business income.

Current accounting standards define the threshold for recognizing uncertain income tax return positions in the consolidated financial statements as “more likely than not” that the position is sustainable, based on its technical merits, and also provide guidance on the measurement, classification and disclosure of tax return positions in the consolidated financial statements. Management believes there is no impact on MHS’ accompanying consolidated financial statements related to uncertain income tax positions.

Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Contributions, including unconditional promises to give, with no donor-imposed restrictions are recognized in the period received as increases in net assets without donor restrictions. Contributions with donor-imposed restrictions are reported as increases in net assets with donor restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Income and realized net gains (losses) on investments are reported as follows:

- change in net assets with donor restrictions if the terms of the gift or the MHS’ interpretation of relevant state law require that they be added to the principal of a permanent net asset with donor restriction;
- change in net assets with donor restrictions if the terms of the gift impose restrictions on the use of the income;
- change in net assets without donor in all other cases.

Accounting Estimates

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

Reclassifications

Certain reclassifications have been made to the presentation of assets whose use is limited related to board designated and donor restricted cash and investments and assets held for self-insurance for 2023 to conform to the 2024 financial statement presentation. These reclassifications had no effect on the total assets, excess of revenues over expenses, or change in net assets.

(in thousands)

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly-liquid instruments purchased with a maturity of three months or less, excluding assets whose use is limited. The carrying amount of cash and cash equivalents approximates fair value.

MHS maintains cash and cash equivalent accounts that may, at times, exceed federally insured limits. MHS has not experienced any losses from maintaining these accounts in excess of federally insured limits. Management believes it is not subject to significant risks associated with these accounts.

Board designated cash and investments have been set aside by the Board of Trustees (Board) for future capital improvements or strategic initiatives over which the Board retains control and may, at its discretion, subsequently use for other purposes. Cash held in donor restricted funds will be used to satisfy donor restricted purposes. Cash held by trustee or authority will be primarily used to satisfy future debt service requirements. Cash held within assets held for self-insurance will be used to satisfy current and estimated future liabilities within GIC.

Following is a reconciliation of cash, cash equivalents and restricted cash as presented in the accompanying consolidated statements of cash flows as of June 30:

	2024	2023
Cash and cash equivalents	$ 269,820	$ 261,559
Assets limited as to use Board designated and donor restricted cash	22,191	40,545
Funds held by trustee	7,465	15,030
Total cash, cash equivalents and restricted cash shown in the accompanying consolidated statements of cash flows	$ 299,476	$ 317,134

Supplies Inventory

Supplies inventory are stated at the lower of cost, determined by the first-in, first-out method, or net realizable value.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received, or in the same period in which conditions are met, are accounted for in net assets without donor restrictions.

Net Assets With Donor Restrictions – net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Assets Whose Use Is Limited

Assets whose use is limited includes board designated and donor restricted cash and investments, funds held by trustee and assets held for self-insurance.

Board designated and donor restricted funds are set aside by the board for future capital improvements or strategic initiatives over which the board retains control and may, at its discretion, subsequently use for other purposes.

Assets held for self-insurance represent funds that have been set aside to cover a portion of GIC's estimated outstanding claims and liabilities. At June 30, 2024 and 2023, assets held for self-insurance of $173,912 and $145,192, respectively, were set aside to cover estimated outstanding claims and liabilities.

Investments and Investment Risk

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investments in hedge funds, private equity funds and other limited partnerships are also measured at fair value. Investment income or loss (including realized gains on investments, interest and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. MHS' investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the accompanying consolidated balance sheets are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, particularly for alternative investments and investments measured at net asset value (NAV), it is reasonably possible that the amounts reported in the accompanying consolidated financial statements could change materially in the near term.

Advances from Third-Party Payers

The Medical Center receives advances from third-party payers to provide working capital for services rendered to the beneficiaries of such services. These advances are subject to periodic adjustment and are principally determined based on the timing difference between the provision of care and the anticipated payment date of the claim for service.

Patient Accounts Receivable

Patient accounts receivables are primarily paid by federal and state governmental authorities (under the Medicare and Medicaid programs), managed health plans, commercial insurance companies, workers' compensation programs, employers and patients. Patient accounts receivable are reported at net realizable value. For accounts receivable associated with services provided to patients who have third-party coverage, MHS estimates net realizable value based on the estimated contractual reimbursement percentage, which in turn is based on current contract provisions and historical paid claims by payor. For self-pay accounts, including uninsured and patient responsibility accounts, the net realizable value is determined using historical collection experience, adjusted for estimated conversions of patient responsibility portions, expected recoveries and changes in trends to estimate implicit price concessions. MHS does not believe there are any significant concentrations of revenues from any particular payor that would subject MHS to any significant credit risks in the collection of patient accounts receivable. Management continually reviews the estimated net realizable value of accounts receivable by monitoring cash collections, economic conditions and trends, changes in payor mix, changes in federal or state healthcare coverage and other matters. Changes in general economic conditions, patient accounting service center operations, payor mix, payor claim processing could affect collections of accounts receivable, cash flows and results of operations.

MHS performs periodic assessments to determine if an allowance for expected credit losses is necessary. MHS considers its incurred loss experience and adjusts for known and expected events and other circumstances. In estimating its expected credit losses, MHS may consider changes in the length of time its receivables have been outstanding, changes in credit ratings for payors, requests from payors to alter payment terms due to financial difficulty, and notices of payor bankruptcies or payors entering receivership. Because MHS' accounts receivable is typically paid for by highly-solvent, creditworthy payors, such as Medicare, Medicaid, other governmental programs, and highly-regulated commercial insurers on behalf of the patient, MHS' credit losses are immaterial to the consolidated financial statements.

Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered. MMC charges are based on rates established by the State of Maryland Health Services Cost Review Commission (the Commission); accordingly, revenue reflects charges to patients based on rates in effect during the period in which the services are rendered (see Note 18). SMI and Physician Enterprise are paid for services based on either negotiated contracts with commercial payers, fee schedules with Medicare and Medicaid or standardized pricing for self-pay patients.

Explicit price concessions represent the difference between amounts billed as patient service revenue and amounts allowed by third-party payers and are accrued in the period in which the related services are rendered.

Based on historical experience, a significant portion of MHS' uninsured patients will be unable or unwilling to pay for services provided. Thus, MHS estimates an implicit price concession related to uninsured patients in the period the services are provided based upon management's assessment of historical and expected net collections. This estimate considers business and general economic conditions, trends in healthcare coverage and other collection indicators. The System does not believe there are any significant concentrations of revenues from any particular payor that would subject the System to any significant credit risks in the collection of patient accounts receivable. Throughout the year, management assesses the adequacy of these implicit price concessions based upon its review of patient accounts receivable and collections to date. Other factors, such as account aging and payment cycles, are considered when estimating implicit price concessions. MHS follows established guidelines for placing its self-pay patient accounts with an outside collection agency. After collection efforts are exhausted, the uncollected balances are returned to the appropriate MHS entities for final write-off.

Effective October 1, 2019, MTC and SMI are reimbursed under a prospective payment system called the patient driven payment model (PDPM), which bases payment on resident characteristics, rather than services provided. PDPM payment depends on the summation of case-mix adjusted components (physical therapy, occupational therapy, speech language pathology, nursing, and nontherapy ancillaries) each with its own case-mix groups and application of a variable per day adjustment schedule. Part-B rehabilitative services are billed and paid based on billable minutes using timed based (or constant attendance) codes.

Charity Care

The Medical Center provides medically necessary services without charge or at amounts less than its established rates to patients who qualify for charity care under its financial assistance policy. Because the Medical Center does not pursue collection of those amounts determined to qualify as charity care, they are not reported as patient service revenue and are not included in patient accounts receivable.

The criteria for qualifying for charity care applied by the Medical Center includes family income, net assets and the size of the patient's bill relative to the patient's ability to pay. Discounts are provided to patients who are unable to pay based on a sliding scale that is applied for family incomes up to approximately 400% above the U.S. Department of Health and Human Services (HHS) Poverty Guidelines. Free care is provided to patients with family incomes up to approximately 200% above the HHS Poverty Guidelines.

Charity care is provided to patients who qualify under the Medical Center's financial assistance policy at any time. Once the Medical Center determines that the patient qualifies for charity care, the Medical Center makes no further attempt to collect on the amount qualifying for charity care.

Certain other controlled subsidiaries of MHS also provide services without charge or at amounts less than their established rates to patients who qualify for charity care under their respective financial assistance policies.

Impairment of Long-Lived Assets

MHS accounts for impairment or disposal of long-lived assets in accordance with applicable guidance. Such guidance requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future net cash expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management believes that no asset impairment existed at June 30, 2024 and 2023.

Property and Equipment

Property and equipment acquisitions costing more than $3,000 or more and having a useful life longer than one years are capitalized and recorded at cost. Donated property and equipment are recorded at fair value at the date of the donation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, buildings and the parking center at 40 years, building improvements are depreciated over 25 years, machinery and equipment ranges from three to ten years.

The cost of new implemented software is capitalized and included within machinery and equipment and is being depreciated over 10 years. Costs include payment to vendors for the purchase and assistance in its installation, payroll costs of employees directly involved in the software installation and interest costs of the software project if financed by debt. Preliminary costs to document system requirements, vendor selection and any costs before software purchases are expensed. Capitalization of costs will generally end when the project is completed, and the software is ready to be used. Where implementation of the project is in phases, only those costs incurred that further the development of the project will be capitalized. Costs incurred to maintain the applications are expensed. Depreciation expense was $43,185 and $42,620 for the years ending June 30, 2024 and 2023, respectively.

Resident Prepayment Deposits

SMI's private pay residents are required to make a non-interest-bearing prepayment of two months' room and board at the time of admission. St. Elizabeth Hall obtains an interest-bearing security deposit, which is the lesser of one month rent or the resident responsibility. At the time of discharge or acceptance by Medical Assistance or similar government assistance programs, any prepayment remaining after application to the resident's outstanding bill will be refunded. At June 30 2024 and 2023, resident prepayment deposits approximated $1,085 and $797, respectively, and have been recorded as a current asset and a current liability within the consolidated balance sheets.

Derivative Instruments

Current accounting standards require that an entity recognize all derivative instruments as either assets or liabilities in the statement of financial position and measure those instruments at fair value. MHS has entered into interest rate swap agreements to manage its interest rate risk (see Note 11). The interest rate swaps do not qualify for hedge accounting under current accounting standards; therefore, management accounts for the derivative instruments as speculative derivative instruments with the change in the fair value reflected in the accompanying consolidated statements of operations as a component of other non-operating income. Net settlement payments are reported as a component of interest cost, with the exception of the payments associated with construction activities that are capitalized. Entering into interest rate swap agreements involves varying degrees and elements of credit, default, prepayment, market and documentation risk in excess of the amounts recognized on the consolidated balance sheets. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates.

Debt Issuance Costs

Costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the term of the related debt using the straight-line method, which approximates the effective interest method. Such costs are reflected as a reduction of long-term debt in the accompanying consolidated balance sheets. Amortization of debt issuance costs was $119 and $106 for the years ending June 30, 2024 and 2023, respectively.

Leases

At lease inception, MHS determines whether an arrangement is or contains a lease. Operating leases are included in operating lease right-of-use (ROU) assets, current operating lease liabilities and noncurrent lease liabilities in the accompanying consolidated financial statements. ROU assets represent MHS' right to use leased assets over the term of the lease. Lease liabilities represent MHS' contractual obligation to make lease payments over the lease term.

For operating leases, ROU assets and lease liabilities are recognized at the commencement date. The lease liability is measured as the present value of the lease payments over the lease term. MHS uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, MHS uses its incremental borrowing rate at the commencement date of the lease to determine the present value of the lease payments. Operating ROU assets are calculated as the present value of the lease payments plus initial direct costs and any prepayments less any lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates and the presence of factors that would cause a significant economic penalty to MHS if the option were not exercised. Lease expense is recognized on a straight-line basis over the lease term. MHS has elected not to recognize a ROU asset and obligation for leases with an initial term of twelve months or less. The expense associated with short-term leases is included in other purchased services in the accompanying consolidated statements of operations.

Estimated Malpractice Costs

The provision for estimated medical malpractice costs includes estimates of the ultimate gross costs for both reported claims and claims incurred but not reported. Anticipated insurance recoveries, if any, associated with reported claims are recorded separately in the accompanying consolidated balance sheets at net realizable value.

Excess of Revenue Over Expenses

The consolidated statements of operations include excess of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services 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) and includes changes in pension and post-retirement cost. Activities that result in gains or losses unrelated to the primary operations of MHS are considered to be nonoperating.

Measure of Operations

The accompanying consolidated statements of operations reflect operating income, which includes all operating revenues and expenses that are an integral part of the MHS' healthcare services and supporting activities and net assets released from donor restrictions to support operating expenditures. Activities included in excess of revenue over expenses that are excluded from operating income, consistent with industry practice include, changes in net unrealized gains and losses on derivative financial instruments, investment income (including realized and unrealized gains and losses on investments, interest, dividends and investment expenses), except for interest income earned on operating cash and cash equivalents and realized gains and losses and interest income associated with the malpractice insurance program, which are included in other operating revenue, as such proceeds are utilized in operations.

Contributions

Unconditional promises to give cash and other assets to MHS 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.

Recent Accounting Pronouncement

Effective July 1, 2023, the MHS adopted ASU 2016-13 *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under CECL methodology is applicable to financial assets measured at amortized cost, certain qualifying insurance receivables, reinsurance recoveries and receivables. This accounting pronouncement did not have a material impact on the financial statements.

Note 2. Patient Service Revenue

Estimated uncollectible amounts from patients are considered implicit price concessions (as defined in Topic 606) and, therefore, included in patient service revenue. Allowances for price concessions continue to be presented as a direct reduction of patient accounts receivable.

Management has determined that MHS has an unconditional right to payment only subject to the passage of time for services provided to date based on just the need to either finalize billing for such services (i.e., charge lag) or to discharge the patient and bill for such services for patients who are still receiving inpatient care in MHS' facilities at the balance sheet date. Accordingly, MHS accrues revenues and the related accounts receivable for services performed but not yet billed at the balance sheet date for in-house patients. Thus, management has determined that MHS does not have any amounts that should be reflected separately as contract assets.

As permitted from Topic 606, MHS elected certain available practical expedients under the standard. First, MHS elected the practical expedient that allows nonrecognition of the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to MHS' expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less. However, MHS does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the respective contracts. Additionally, MHS has applied the practical expedient whereby all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that MHS otherwise would have recognized is one year or less in duration.

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

Performance obligations are determined based on the nature of the services provided by MHS. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. MHS 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 obligations. Generally, performance obligations satisfied over time relate to patients in the Medical Center or SMI. MHS measures the performance obligation from admission to the facility to the point when the facility is no longer required to provide services to that patient, or resident which is generally the time of discharge. Revenue for performance obligations satisfied at a point in time generally relate to patients receiving outpatient services or patients and customers in a retail setting and MHS does not believe it is required to provide additional goods or services.

Because all of its performance obligations relate to contracts with a duration of less than one year, MHS has elected to apply the optional exemption provided in current applicable accounting standards 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. Any unsatisfied or partially unsatisfied performance obligations 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 patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

As discussed in Note 18, MMC charges are based on rates established by the Commission, which is subsequently reduced by contractual discounts provided to third-party payers and discounts provided to uninsured patients in accordance with MHS policy. SMI and Physician Enterprise determine the transaction price based on standard charges for goods and services provided, reduced by explicit price concession in the form of contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with internal policy, and implicit price concessions provided to uninsured patients. MHS determines its estimate of implicit price concessions based on historical collection experience with this class of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Management believes that the financial effects of using this practical expedient are not materially different from an individual contract approach.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which in some instances have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge compliance of MHS with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon MHS. The results of such governmental review could include fines, penalties and exclusion from participation in the Medicare and Medicaid programs. In addition, the contracts MHS has with commercial payers also provide for retroactive audit and review of claims.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. MHS also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. MHS 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 discounts and 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. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

(in thousands)

Consistent with mission of MHS, care is provided to patients regardless of their ability to pay. Therefore, MHS 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 MHS expects to collect based on its collection history with those patients.

Agreements with third-party payers typically provide for payments at amounts less than established charges, or fixed fee schedule. A summary of the payment arrangements with major third-party payers follows:

Medicare: Services rendered to Medicare beneficiaries are paid at prospectively determined rates per case. These rates vary according to a payment classification system that is based on clinical, diagnostic, inpatient status and other factors. Costs related to Medicare beneficiaries are paid based upon cost reimbursement methods, established fee screens, or a combination thereof. Physician services are paid based upon established fee schedules. Outpatient services, are paid using prospectively determined rates and are reimbursed for cost reimbursement items at tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

Medicaid: Medicaid services, excluding CAH, Rural Health Centers (RHC) and FHC, primarily are reimbursed based upon prospectively determined rates for services rendered to Medicaid program beneficiaries. Reimbursement for CAH, RHC and FHC is received at tentative rates, with final settlement determined after submission of an annual cost report and approval by the Medicaid program.

Other: Payment agreements with managed care payors provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates, shared savings, pay for performance, care management or medical home management per patient fees.

There are various other proposals at the federal and state levels that could, among other things, reduce reimbursement rates, or modify reimbursement methods, including Medicare and Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined.

Patient service revenue from third-party payers and others (including uninsured patients) for the years ended June 30, 2024 and 2023, are summarized in the following tables:

	2024				
	Medicare	**Medicaid**	**Commercial**	**Other**	**Total**
Hospital | Inpatient	$ 85,433	$ 57,382	$ 62,099	$ 2,611	$ 207,525
Hospital | Outpatient	124,100	44,720	175,182	8,039	352,041
Hospital | Emergency Room	4,869	10,217	3,823	2,405	21,314
Stella | Skilled Nursing	17,075	26,151	2,237	7,203	52,666
Stella | Home Health	13,720	81	2,687	2,087	18,575
Physician Enterprise | FFS	55,157	28,432	99,546	11,861	194,996
Physician Enterprise | Ancillary	38,193	4,630	38,960	305	82,088
	$ 338,547	$ 171,613	$ 384,534	$ 34,511	$ 929,205

(in thousands)

	2023				
	Medicare	**Medicaid**	**Commercial**	**Other**	**Total**
Hospital | Inpatient	$ 75,843	$ 53,502	$ 60,740	$ 1,331	$ 191,416
Hospital | Outpatient	127,252	46,007	172,045	6,702	352,006
Hospital | Emergency Room	4,267	8,478	3,774	1,371	17,890
Stella | Skilled Nursing	15,063	26,132	2,738	7,651	51,584
Stella | Home Health	8,479	157	1,990	1,591	12,217
Physician Enterprise | FFS	52,036	27,370	92,931	11,924	184,261
Physician Enterprise | Ancillary	35,825	3,665	37,577	290	77,357
	$ 318,765	$ 165,311	$ 371,795	$ 30,860	$ 886,731

Revenue from deductibles and coinsurance are included in the categories presented above based on the primary payer.

Note 3. Patient Accounts Receivable and Charity Care

Approximately 45% and 47% of gross patient accounts receivable were due from Medicare and Medicaid at June 30, 2024 and 2023, respectively.

The net cost of charity care provided by MHS totaled $22,695 and $19,829 for the years ended June 30, 2024 and 2023, respectively. The cost of charity care was calculated by applying the cost-to-charge ratio to the total amount of charges foregone for each of the controlled subsidiaries of MHS that provide charity care. The cost of charity care was determined net of any patient-related revenue due to sliding scale payments or other patient-specific sources and includes both direct and indirect cost of rendering care. The net cost of charity care is excluded from the uncompensated care fund net receipts (see Note 18). Additionally, MHS and certain of its controlled subsidiaries provide structured repayment plans to patients without collateral.

Note 4. Pledges Receivable, Net

Pledges receivable resulting from unconditional promises to give are reported in the period when the pledge is made. As of June 30, 2024, pledges receivable consisted of contributions to fund capital and operating campaigns for the MHS.

MHS had unconditional promises to give representing the following at June 30, 2024:

	2024	**2023**
Amounts to be received within one year	$ 2,789	$ 2,595
Amounts to be received within two to five years	8,263	8,376
Amounts to be received after five years	17,695	18,881
Total Pledges	28,747	29,852
Less: unamortized discount	(5,173)	(5,442)
Less: current portion	(2,789)	(2,595)
Long-term portion	$ 20,785	$ 21,815

(in thousands)

MHS discounts long term pledge receivables at a rate range of 1.81 % to 4.63%, which includes a risk adjustment factor. Approximately $22,000 and $23,000 of the total gross pledge receivable attributable to one major donor, as of the year ended June 30, 2024 and 2023, respectively.

Note 5. Property and Equipment

Property and equipment, at cost, consists of the following at June 30:

	2024	2023
Buildings and improvements	$ 719,856	$ 701,816
Machinery and equipment	317,287	293,076
Parking center	41,971	41,971
Construction-in-progress	41,404	36,011
Land	18,976	18,976
	1,139,494	1,091,850
Accumulated depreciation	(591,441)	(548,351)
	$ 548,053	$ 543,499

Construction in progress consists primarily of major renovation and expansion projects.

MMC completed construction and IT projects to expand services and capacity that cost approximately $8,221 and $15,446 during the years ended June 30, 2024 and 2023, respectively. The spend associated with these projects have been capitalized and are included in buildings and improvements.

Note 6. Funds Held by Trustee

Funds held by trustee, which consist primarily of cash and government obligations (at fair value), are limited as to use as follows at June 30:

	2024	2023
Debt service fund	$ 5,551	$ 13,427
Reserve for replacements and residual receipts	1,914	1,601
	7,465	15,028
Less current portion	(5,551)	(13,427)
Long-term portion	$ 1,914	$ 1,601

Note 7. Board Designated, Donor Restricted, and Assets Held for Self-Insurance Cash and Investments

Board designated cash and investments are set aside by the board of trustees for costs relating to replacement or improvement of existing assets, or to cover the cost of services rendered as charity care and other programs. All board-designated investments are without donor restrictions, as the board at its discretion may undesignated the use of such funds. Investments with donor restrictions have been limited by donors to a specific purpose.

(in thousands)

Board designated, donor restricted, and assets held for self-insurance cash and investments consist of the following at June 30:

	2024	2023
Equity	$ 274,720	$ 230,814
Fixed maturity	176,118	142,942
Cash and cash equivalents	22,191	40,546
Alternatives	34,128	35,555
Mutual bond funds	18,045	14,267
	$ 525,202	$ 464,124

The investments above have been allocated, by source, as follows at June 30:

	2024	2023
Board designated	$ 317,259	$ 290,337
With donor restrictions subject to passage of time or use	31,853	26,418
With perpetual donor restrictions	2,178	2,178
Assets held for self-insurance	173,912	145,191
	$ 525,202	$ 464,124

Investments with perpetual donor restrictions at June 30, 2024 and 2023 of $2,178 are reported as restricted cash and investments.

Earnings on investments without donor restrictions are as follows for the years ended June 30:

	2024	2023
Interest and dividends	$ 6,407	$ 4,199
Net realized (losses) gains	6,729	(1,214)
	13,136	2,985
Unrealized gains (losses) on investments	20,980	23,445
	$ 34,116	$ 26,430

MHS has certain charitable gift annuities with certain individuals and other third party entities. As of June 30, 2024 and 2023, MHS maintained reserve assets in the amount of $94 and $93, in a segregated account, respectively. As of June 30, 2024 and 2023, MHS maintained reserves on its outstanding annuity agreements in the amount of $45 and $47, respectively. Management believes the reserve assets are sufficient to meet the reserve requirements.

Note 8. Investments In and Advances to Affiliates

Investments in and advances to affiliates include joint venture relationships in which MHS or its subsidiaries have an ownership interest of 50% or less. Investments over which MHS has significant influence are generally carried on the equity method, while the others where MHS does not have significant influence are carried at cost.

(in thousands)

MHS has investments totaling $5,651 and $4,564 at June 30, 2024 and 2023, respectively, in the following joint ventures:

		Percentage of Ownership		Investment	
Joint Venture	**Business Purpose**	**2024**	**2023**	**2024**	**2023**
Premier Purchasing Partners, Inc.	Capital balance in group purchasing organization	n/a	n/a	$ 276	$ 276
Johns Hopkins Medicare Advantage	Medicare Advantage plan	1.11%	1.11%	5,375	4,288
				$ 5,651	$ 4,564

MHS recorded non-operating income of $775 and $1,000 related to the operations of these investments for the years ended June 30, 2024 and 2023, respectively. MHS receives rebates from Premier Purchasing Partners, Inc., which are netted with associated supplies expense in the accompanying consolidated financial statements.

In June 1997, MMC executed a joint venture agreement with the Archbishop of Baltimore to form Mercy Ridge, Inc. (MR) for the purpose of developing a continuing care retirement community located in Timonium, MD. MMC has a 50% ownership in the joint venture. Since the original contribution into the joint venture, MMC has received distributions greater than the original investment. As of June 30, 2024 and 2023, MR has operated at a net deficit. MMC has recorded the equity method in the investment at zero as of June 30, 2024 and 2023, since MMC is not obligated to make additional contributions into MR.

In September 2016, MHS invested in the Maryland Health Advantage Medicare Advantage Plan (the MA Plan) as a minority owner acquiring a six percent ownership stake. The MA Plan is comprised of various Maryland healthcare providers to deliver comprehensive provider, physician, prescription medicine, wellness and other coverage to participating Medicare beneficiaries in Maryland through a health care network. MHS and the Physician Enterprise are also contracted as participating providers in the MA Plan.

MHS recognizes its ownership in the MA Plan using the cost basis of accounting. MHS' current committed capital is $5,375 and the mandatory capital was limited to $3,000. Any additional capital requirements are optional but electing not to contribute will dilute MHS' ownership percentage accordingly. MHS contributed $233 and $183 during the years ended June 30, 2024 and 2023, respectively.. All net revenue from providing services to MA Plan beneficiaries is recognized at expected reimbursable amounts in the accompanying consolidated statements of operations. Members are allocated a portion of profits or losses in accordance with their participation in the MA Plan based on the terms of the membership agreement. The amount of such allocated profits or losses cannot be estimated at the present time. Accordingly, they will be recognized in the period the amount of such allocations become known.

Note 9. Other Assets

Other long-term assets consist of the following at June 30:

	2024	**2023**
Amortizable assets, net	$ 869	$ 1,280
Health insurance prepayment	1,708	1,449
Other investments	997	897
	$ 3,574	$ 3,626

(in thousands)

Gross amortizable assets of $11,696 and $11,699 for the years ended June 30, 2024 and 2023, respectively, are amortized over the expected useful life of the asset on a straight-line basis. MHS has recorded accumulated amortization of $10,827 and $10,419 for the years ended June 30, 2024 and 2023, respectively. Amortization expense is included with depreciation and amortization on the consolidated statements of operations.

Note 10. Reinsurance Receivable and Provision for Outstanding Losses

GIC management based the provision for losses relating to medical malpractice and general liability at June 30, 2024 on a report dated July 2024 prepared by GIC's independent actuaries, As of June 30, 2024 and 2023, GIC's outstanding undiscounted losses were $155,860 and $139,478, respectively, and the reinsurance receivable for such losses was $6,951 and $6,335, respectively, after factoring in actual losses paid to June 30. The estimates provided by the actuaries are based on the historical data of the program blended together with relevant insurance industry loss development statistics. See Note 17 for further information regarding policies and coverage.

Movement in the provision for outstanding losses is summarized as follows:

	2024	2023
Beginning balance	$ 139,478	$ 131,767
Less: outstanding losses recoverable	(6,335)	(6,815)
	$ 133,143	$ 124,952
Incurred, net of reinsurance		
Current year	$ 30,612	$ 30,448
Prior years	(8,475)	(16,712)
	$ 22,137	$ 13,736
Paid, net of reinsurance, related to		
Current year	$ 858	$ (590)
Prior years	(7,229)	(4,955)
	$ (6,371)	$ (5,545)
Net balance at year end	$ 148,909	$ 133,143
Add: outstanding losses recoverable	6,951	6,335
Balance at end of year	$ 155,860	$ 139,478
Less: current portion	(7,377)	(6,889)
Provision for outstanding losses, long term	$ 148,483	$ 132,589

(in thousands)

Consistent with most companies with similar insurance operations, GIC's provision for outstanding losses is ultimately based on management's reasonable expectations of future events. In the opinion of GIC management, the provision for outstanding losses relating to losses reported and losses incurred but not reported at the consolidated balance sheet dates is adequate to cover the expected ultimate liability of GIC. It is reasonably possible that the expectations associated with these amounts could change in the near term (i.e., within one year) and that the effect of such changes could be material to the consolidated financial statements.

GIC's long-term estimated provision for outstanding losses exceeds GIC's retention limits by $6,951 and $6,335 for the years ended June 30, 2024 and 2023, respectively, and are recorded as reinsurance receivable in the accompanying consolidated balance sheets. GIC's current reinsurance receivable is $760 and $1,030 as of the years ending June 30, 2024 and 2023, respectively, and are recorded as other amounts receivable, net in the accompanying consolidated balance sheets.

In the event that GIC's reinsurers are unable to meet their obligations under the reinsurance agreements, GIC would still be liable to pay all losses under the insurance policies it issues but would only receive reimbursement to the extent the reinsurers could meet their above-mentioned obligations. GIC believes that all amounts included in reinsurance balances receivable and recoverable in the accompanying consolidated balance sheets will be collected in full from the reinsurers.

Note 11. Long-Term Debt

Long-term debt consists of the following at June 30:

	2024	2023
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2006; interest rate 5.69%; due July 1, 2036	$ 22,855	$ 24,020
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2007 B and C (converted); interest rate 1.48%; due July 1, 2024	3,800	7,470
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2016A; interest rate ranging from 3.50% to 5.00%; due July 1, 2042	135,250	135,250
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2016C; variable interest rate (4.99% at June 30, 2024); due July 1, 2042, subject to mandatory redemption on July 1, 2032	53,645	55,795
MHHEFA Revenue Bonds, Stella Maris Issue, Series 2018; variable interest rate (3.3% at June 30, 2024); due 2050	16,410	16,745
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2021; fixed interest rate 1.65%; due July 1, 2031	43,100	44,780
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2022A; fixed interest rate 2.84%; due July 1, 2031	41,865	45,200
MHHEFA Revenue Bonds, Mercy Medical Center Issue, Series 2022B; variable interest rate (5.11% at June 30, 2024); due July 1, 2031	35,335	35,335
HUD mortgage loan; interest rate 2.64%; due 2046	3,885	4,017
Other	-	38
Total long-term debt	356,145	368,650

(in thousands)

(continued)	2024	2023
Add: Net unamortized premium	5,518	5,845
Less: Net unamortized debt issuance costs	(2,503)	(2,313)
Current portion	(12,935)	(12,508)
Long -term portion	$ 346,225	$ 359,674

Principal payments on long-term debt are as follows for the years ending June 30:

2025	$ 12,935
2026	13,419
2027	13,823
2028	14,232
2029	14,580
Thereafter	287,156
	$ 356,040

Pursuant to an amended and restated Master Loan Agreement, as supplemented (the Loan Agreement), the Obligated Group members have issued debt through Maryland Health and Higher Educational Facilities Authority (MHHEFA). Currently the Medical Center, MHS and MHF comprise the Obligated Group for Mercy Medical Center issues. Each Obligated Group member is jointly and severally liable for the repayments under the obligations of the Loan Agreement. As security for the performance of the obligations of the Obligated Group members under the Loan Agreement, the Obligated Group members have granted to MHHEFA a security interest in their receipts, subject to certain permitted encumbrances. In addition, the Medical Center has mortgaged to MHHEFA certain real and personal property of the Medical Center. The Loan Agreement contains certain restrictive, financial and nonfinancial covenants. Under the terms of the Loan Agreement and other loan agreements, certain funds are required to be maintained on deposit with the trustee or MHHEFA to provide for repayment of the obligations of the Obligated Group (see Note 6).

Under the provisions of the Series 2018 Bonds agreement, SMI is the obligated party and has granted to MHHEFA a security interest in all of its real property and the assignment of its leases. In addition, payments on the Series 2018 Bonds are secured by an irrevocable letter of credit provided by a commercial bank.

SMI is required to maintain certain deposits with a trustee and satisfy certain measures of financial performance as long as the Series 2018 Bonds are outstanding. As of June 30, 2024 and 2023, management believes SMI was in compliance with the financial covenant requirements of the bond indenture.

Mercy Medical Center Issue, Series 2006 Bonds

In August 2006, MHHEFA authorized the issuance, sale and delivery of the $35,000 Mercy Medical Center Series 2006 Revenue Bonds. The proceeds were loaned by MHHEFA to MMC to finance the construction of a new parking garage as well as the financing of certain routine capital expenditures.

Principal repayment of these bonds began on July 1, 2009 and is paid annually through July 1, 2036. Interest is paid semiannually on January 1 and July 1. Interest accrues at a fixed rate of 5.69%. The bonds are currently callable at par (100%).

Mercy Medical Center Issue, Series 2007B and C (Converted)

In October 2007, MHHEFA authorized the issuance, sale and delivery of its $100,000 Revenue Bonds, Mercy Medical Center Issue, Series 2007B and C, the proceeds of which were loaned by MHHEFA to MMC to finance the construction of a replacement hospital facility. On April 1, 2010, $18,080 of the $50,000 Series 2007B and $11,920 of the $50,000 Series 2007C Bonds were converted to Bank Qualified Revenue Bonds with a fixed interest rate, terminating July 1, 2024. Principal repayment of the converted bonds began July 1, 2012 and subsequent to year end were paid in full. Interest accrues at a fixed rate of 1.48%. The monthly interest payments on the Series 2007B and C Bonds are made directly to the bank.

The portion of the Series 2007B and C bonds that were not converted to Bank Qualified Bonds were refinanced with other MHHEFA Revenue bonds.

Mercy Medical Center Issue, Series 2016A

In March 2016, MHHEFA authorized the issuance, sale and delivery of its $135,250 Revenue Bonds, Mercy Medical Center Issue, Series 2016A. The proceeds were loaned by MHHEFA to MMC to advance refund $145,880 aggregate principal amount and $11,452 aggregate interest due until July 1, 2017 of the MMC Issue, Series 2007A Bonds. As of June 30, 2016, the 2007A bonds were defeased and on July 1, 2017 the Series 2007A Bonds were fully refunded.

Principal repayment of the Series 2016A begins on July 1, 2032 and is scheduled to be paid annually through July 1, 2042. Interest accrues at a fixed rate ranging from 3.5% to 5.0%. The Series 2016A bonds were issued net of an original issue premium of $9,327, which is being amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

Mercy Medical Center Issue Series 2016C

In May 2016, MHHEFA authorized the issuance, sale and delivery of its $65,450 Revenue Bonds, Mercy Medical Center, Series 2016C. The proceeds were loaned by MHHEFA to MMC to refund the $65,290 Series 2013 and Series 2013B bonds then outstanding. The Series 2016C bonds were issued as a non-bank qualified revenue bonds and directly purchased by a commercial bank. The direct bank purchase terminates on July 1, 2032, at which time the Series 2016C bonds will be subject to a mandatory purchase at their par value by MMC unless the bank and MMC agree to an extension. The Series 2016C bonds bear interest at a variable rate of 80% SOFR plus 0.73%. Annual principal repayment of Series 2016C bonds began on July 1, 2016 with maturity on July 1, 2042, with interest being paid monthly.

Stella Maris Issue, Series 2018 Bonds

In December 2018, MHHEFA authorized the issuance, sale and delivery of its $21,000 Revenue Bonds, Stella Maris issue. The proceeds were loaned to SMI to refund Series 1997 Bonds and to partially finance the construction of a Transitional Care Center in Stella Maris. Principal repayment of these bonds began on July 1, 2019 and is scheduled to be paid annually through July 1, 2050. All Series 2018 Bonds are subject to redemption prior to maturity. Interest accrues at a variable rate based on SIFMA. Interest on the bonds is payable monthly. An annual letter of credit fee, equal to 0.73% of the letter of credit amount, is payable quarterly by SMI. The letter of credit expires December 19, 2028.

Mercy Medical Center Issue, Series 2021 Bonds

In April 2021, MHHEFA authorized the issuance, sale and delivery of its $46,680 Revenue Bonds, Mercy Medical Issue, Series 2021 Bonds. The proceeds were loaned by MHHEFA to MMC to refund Series 2011 Bonds and to finance new equipment purchases for Mercy Medical Center. Principal repayment of these bonds began on July 1, 2021 and is scheduled to be paid annually through July 1, 2031. Interest accrues at a fixed rate based of 1.65%, payable monthly.

Mercy Medical Center Issue, Series 2022A

In June 2022, MHHEFA authorized the issuance, sale and delivery of its $45,200 Revenue Bonds, Mercy Medical Issue, Series 2022A Bonds. The proceeds were loaned by MHHEFA to MMC to refund Series 2012 Bonds for Mercy Medical Center. Principal repayment of these bonds begins on July 1, 2023 and is scheduled to be paid annually through July 1, 2031. Interest accrues at a fixed rate based of 2.84%, payable monthly.

Mercy Medical Center Issue, Series 2022B

In June 2022, MHHEFA authorized the issuance, sale and delivery of its $35,335 Revenue Bonds, Mercy Medical Issue, Series 2022B Bonds. The proceeds were loaned by MHHEFA to MMC to refund Series 2016B Bonds for Mercy Medical Center. Principal repayment of these bonds begins on July 1, 2032 and is scheduled to be paid annually through July 1, 2037. The Series 2022B bonds interest accrues at a variable rate equal to 0.79% of the one month secured overnight financing rate plus the applicable spread of 0.92%, payable monthly.

HUD Mortgage Loan

The mortgage loan from the U.S. Department of Housing and Urban Development (HUD) was used by CSC to construct St. Elizabeth Hall. This original note was refinanced during the year ended June 30, 2013. The current note reflects an interest rate of 2.64% per annum with monthly installments of $20, including interest, with the final payment due January 1, 2046 and requires mortgage insurance of 0.45% of the average annual outstanding principal balance. The note also requires a debt service savings and property replacement reserve fund. The liability of CSC under the mortgage note is limited to the underlying value of the real estate collateral plus other amounts deposited with the lender.

Lines of Credit

The Medical Center has a $50,000 operating line of credit with a commercial bank. At June 30, 2024 and 2023, the operating line of credit had $0 outstanding. As of June 30, 2024 and 2023, the interest rate on the outstanding line of credit draw was 7.08% and 6.84%, respectively, and is based on one-month SOFR plus 1.75%. This line of credit agreement is scheduled to remain in effect until all obligations, including other debt held by the bank, are paid in full or terminated by the bank.

Interest Rate Swaps

MHS' primary objective for holding derivative financial instruments is to manage interest rate risk. MHS does not utilize interest rate swap agreements or other financial instruments for trading or other speculative purposes. The derivative financial instruments are recorded at fair value based upon information supplied by the counterparty as described in Note 12.

On December 1, 2004, the Medical Center entered into a fixed spread basis swap. The fixed spread basis swap matures on December 1, 2024 and the exchanges of cash flows with the counter party began March 1, 2005. The notional amount of the swap is $50,000. Pursuant to the swap agreement, the Medical Center pays the counter party a variable rate equal to the USD-SIFMA Municipal Swap Index and receives interest at a variable rate equal to the sum of SIFMA plus 0.85%.

Simultaneously, with the issuance of the Series 2006 bonds, MMC entered into an interest rate swap agreement, which was amended in November 2014, with a counter party with a notional amount of $35,000 to convert the fixed rate structure to a variable rate. Under this amended agreement, MMC will receive a fixed interest rate of 5.69% and pay to the counter party the USD-SIFMA Municipal Swap Index plus 0.80%. The interest rate swap agreement matures on April 1, 2023. Additionally, under this amended agreement, MMC will continue to receive a fixed interest rate of 5.69% and now pay to the counter party the USD-SIFMA Municipal Swap Index plus 0.836%. The interest rate swap does not qualify for hedge accounting under generally accepted accounting principles.

The fair value of this contract is based on two components: (i) the accrued but unpaid periodic cash flows and (ii) the termination value as defined in the agreement. By definition, the termination value is equal to the bond amount multiplied by the difference between highest price in the marketplace and the bonds base price (100%) and the call price would be the highest price in the marketplace on the valuation date. This is due to the fact that MHS would be economically inclined to call the bonds at par versus paying any termination payment on the swap and the bonds are carried on MHS' books at par. With MHS prepared to call the bonds at par, the market price should immediately converge on the call price. Additionally, MHS has the right to optionally terminate the contract. The counter party does not have the right to optionally terminate the agreement. The counter party can only terminate the agreement prior to its stated maturity if an event of default or an additional termination event exists.

During October 2007, MMC entered into a fixed payer swap with a notional amount of $65,000, which was amended in July 2014. Pursuant to the amended swap agreement, MMC pays the counter party a fixed rate of 3.459% and receives a variable rate equal to 70% of SOFR plus 0.08%.

MHS recognizes gains and losses from changes in fair values of interest rate swap agreements as non-operating revenue or expense within net other income in the accompanying consolidated statement of operations. The net cash paid or received under the swap agreements is recognized as an adjustment to interest expense. No termination payments would be required if the swap agreements are held to maturity.

Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayment, market and documentation risk. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates. The notional amounts of the swap agreements are used to measure the interest to be paid or received and do not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreements. Management believes that losses related to credit risk are remote.

At June 30, 2024 and 2023, the fair value of the interest rate swap liability was $(4,286) and $(6,529), respectively. An unrealized gain on interest rate swaps totaling $2,243 and $4,872 is reflected in the accompanying consolidated statements of operations for the fiscal years ended June 30, 2024 and 2023, respectively.

Note 12. Fair Value of Financial Instruments

The following methods and assumptions were used by MHS in estimating the fair value of its financial instruments:

Cash and cash equivalents, patient accounts receivable, other amounts receivable, accounts payable and accrued expenses due to third-party payers and construction retainage: The carrying amounts reported in the consolidated balance sheets approximate fair value.

Short-term investments, funds held by trustee and assets limited as to use and donor restricted investments: Fair values, which are the amounts reported in the consolidated balance sheets, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Pooled separate accounts: NAV units, as determined by the custodian, are used to estimate fair value since quoted prices in active markets for identical assets are not available. These prices are determined using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics.

Current accounting standards define fair value as 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 and establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels of inputs that may be used to measure fair value are:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2 Observable input other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate-debt securities, and alternative investments.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the business, value, or financial position of MHS based on the fair value information of financial assets and liabilities presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset or liability, including estimates of the timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset or liability. Furthermore, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset or liability. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in the amounts disclosed.

MHS uses techniques consistent with the market approach for measuring fair value of its Level 2 and Level 3 assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Fair values of equity securities and fixed maturity securities have been determined by MHS from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes. Cash equivalents comprise short-term fixed maturity securities and carrying amounts approximate fair values, which have been determined from public quotations, when available. Money markets and certificates of deposit comprise short-term fixed maturity securities. The carrying amounts approximate fair values, which have been determined from public quotations, when available.

MHS holds alternative investments that are not traded on national exchanges or over-the-counter markets. MHS is provided information on net asset value per share as a practical expedient for these investments calculated by the funds of funds' managers (who are investment advisors registered with the Securities and Exchange Commission) based on information provided by the managers of underlying funds.

Fair value of the interest rate swaps represents, or are derived from, mid-market values. Mid-market prices and inputs may not be observable, and instead valuations may be derived from proprietary or other pricing models based on certain assumptions regarding past, present and future market conditions. Some inputs may be theoretical, not empirical, and require subjective assumptions and judgments. Valuations may be based on assumptions as to the volatility of the underlying security, basket or index, interest rates, exchange rates, dividend yields, correlations between these or other factors, the impact of these factors upon the value of the security (including any embedded options), as well as issuer funding rates and credit spreads (actual or approximated) or additional relevant factors.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although MHS 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 results in a different fair value measurement at the reporting date.

(in thousands)

The following table presents the fair value hierarchy for financial instruments reported by MHS measured at fair value on a recurring basis as of June 30, 2024.

Assets	Level 1	Level 2	Level 3	Total Fair Value
Board designated and donor restricted investments:				
Cash equivalents	$ 22,191	$ -	$ -	$ 22,191
Equity securities				
Mutual funds				
International emerging markets	45,194	-	-	45,194
Domestic mutual fund-equity income	59,774	-	-	59,774
Common stocks				
Consumer discretionary	11,915	81	-	11,996
Consumer staples	9,267	566	-	9,833
Energy	7,343	272	-	7,615
Financials	19,188	108	-	19,296
Real estate	2,245	-	-	2,245
Health care	11,573	-	-	11,573
Industrials	13,836	-	-	13,836
Information technology	31,872	-	-	31,872
Materials	3,676	42	-	3,718
Miscellaneous	1,226	178	-	1,404
Foreign stocks/American deposit receipt	93	6,437	-	6,530
Fixed maturity				
U.S. Government and agencies				
U.S. Treasury bonds	18,569	-	-	18,569
Government agency bonds	-	10,646	-	10,646
Corporate bonds				
Asset backed securities	-	2,161	-	2,161
Financial	-	2,748	-	2,748
Industrial	-	6,055	-	6,055
Other	-	11,061	-	11,061
Mutual bond funds	18,045	-	-	18,045
Municipal bonds	-	800	-	800
Total assets in the fair value hierarchy	$ 276,007	$ 41,155	$ -	317,162
Investments measured at NAV [(a)]				34,128
Total Assets limited as to use				$ 351,290
Assets held for self-insurance:				
Exchange traded funds	$ 35,540	$ -	$ -	$ 35,540
High Income Fund	-	6,981	-	6,981
Equity mutual fund	-	7,313	-	7,313
U.S. treasury securities	51,612	-	-	51,612
Corporate bonds	-	21,149	-	21,149
Mortgage-backed securities	-	1,969	-	1,969
Asset backed securities	-	49,348	-	49,348
Total assets held for self-insurance	$ 87,152	$ 86,760	$ -	$ 173,912
Short-term investments				
Cash equivalents	$ -	$ 1,815	$ -	$ 1,815
Total short-term investments	$ -	$ 1,815	$ -	$ 1,815

(in thousands)

(continued)

Assets	Level 1	Level 2	Level 3	Total Fair Value
Funds held by trustee (current)				
Money market	$ 5,551	$ -	$ -	$ 5,551
Funds held by trustee (non-current)				
Cash equivalents	1,914	-	-	1,914
Total assets in the fair value hierarchy	$ 370,624	$ 129,730	$ -	500,354
Investments measured at NAV (a)				34,128
Total investments at fair value				$ 534,482

Liabilities	Level 1	Level 2	Level 3	Total Fair Value
Interest rate swaps	$ -	$ 4,286	$ -	$ 4,286
Total liabilities at fair value	$ -	$ 4,286	$ -	$ 4,286

[(a)] *In accordance with current accounting standards, 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 in the consolidated balance sheets.*

(in thousands)

The following table presents the fair value hierarchy for financial instruments reported by MHS measured at fair value on a recurring basis as of June 30, 2023.

Assets	Level 1	Level 2	Level 3	Total Fair Value
Board designated and donor restricted investments:				
Cash equivalents	$ 40,546	$ -	$ -	$ 40,546
Equity securities				
Mutual funds				
International emerging markets	55,607	-	-	55,607
Domestic mutual fund-equity income	31,077	-	-	31,077
Common stocks				
Consumer discretionary	10,500	-	-	10,500
Consumer staples	9,351	-	-	9,351
Energy	4,719	-	-	4,719
Financials	14,531	-	-	14,531
Real estate	3,737	-	-	3,737
Health care	12,984	-	-	12,984
Industrials	13,926	-	-	13,926
Information technology	25,839	-	-	25,839
Materials	4,046	-	-	4,046
Miscellaneous	959	-	-	959
Foreign stocks/American deposit receipt	-	6,385	-	6,385
Fixed maturity				
U.S. Government and agencies				
U.S. Treasury bonds	10,886	-	-	10,886
Government agency bonds	-	8,728	-	8,728
Corporate bonds				
Asset backed securities	-	982	-	982
Financial	-	2,647	-	2,647
Industrial	-	4,189	-	4,189
Other	-	6,656	-	6,656
Mutual bond funds	14,267	-	-	14,267
Municipal bonds	-	815	-	815
Total assets in the fair value hierarchy	$ 252,975	$ 30,402	$ -	283,377
Investments measured at NAV [(a)]				35,556
Total Assets limited as to use				$ 318,933

Assets	Level 1	Level 2	Level 3	Total Fair Value
Assets held for self-insurance:				
Exchange traded funds	$ 30,914	$ -	$ -	$ 30,914
Equity mutual fund	-	6,238	-	6,238
U.S. treasury securities	46,817	-	-	46,817
Corporate bonds	-	16,990	-	16,990
Mortgage-backed securities	-	1,338	-	1,338
Asset backed securities	-	42,894	-	42,894
Total assets held for self-insurance	$ 77,731	$ 67,460	$ -	$ 145,191

(in thousands)

(continued) **Assets**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Short-term investments				
Cash equivalents	$ -	$ 1,778	$ -	$ 1,778
Total short-term investments	$ -	$ 1,778	$ -	$ 1,778
Funds held by trustee (current)				
Money market	$ 13,427	$ -	$ -	$ 13,427
Funds held by trustee (non-current)				
Cash equivalents	1,601	-	-	1,601
Total assets in the fair value hierarchy	$ 345,734	$ 99,640	$ -	445,374
Investments measured at NAV (a)				35,556
Total investments at fair value				$ 480,930

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Interest rate swaps	$ -	$ 6,529	$ -	$ 6,529
Total liabilities at fair value	$ -	$ 6,529	$ -	$ 6,529

[a] *In accordance with current accounting standards, 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 in the consolidated balance sheets.*

The following table summarizes investments for which fair value is measured using the NAV per share practical expedient as of June 30, 2024 and 2023.

	Fair Value at June 30, 2024	**Fair Value at June 30, 2023**	**Unfunded Commitments**	**Other Redemption Restrictions**	**Redemption Notice Period**
Multi-Strategy Fund [1]	$ 9,126	$ 8,395	None	None	65 days
Stepstone Opportunities [2]	9,392	13,498	3,823	None	None
Other	15,610	13,663	5,145	-	-
	$ 34,128	$ 35,556			

[1] The multi-strategy fund is event-driven with a focus on opportunities to exploit situations in which announced or anticipated events create opportunities to invest in securities and other financial instruments at a discount to their exit values. The fund also invests in a long/short equities portfolio of securities that can be readily valued and trade at a discount or premium to the fair value of the underlying assets. The fund permits semiannual redemption subject to 65 days advance written notice.

[2] The fund's objective is to seek long-term capital appreciation by investing primarily by making, holding, and disposing of privately negotiated equity and equity-related investments principally in a diversified group of operating companies.

Note 13. Defined Contribution and Profit-Sharing Plans

MHS had a qualified 401(k) plan covering substantially all employees of the Medical Center and SMI who have completed at least one year of service and are at least twenty-one years of age. MHS made an annual contribution on behalf of all eligible employees based on either the employee's contributions to the 401(k) plan or their annual compensation. MHS had matched, on a dollar-for-dollar basis (based on age and years of service thresholds) the amount contributed by the employee, not to exceed 6% of the employee's salary. MHS' contributions to the 401(k) plan for all participants employed prior to April 1, 1997 for Medical Center employees or July 1, 1997 for SMI employees, vested at a rate of 25% annually and completely vested on April 1, 2001 for Medical Center employees and July 1, 2001 for SMI employees. MHS' contributions for all participants employed on or after April 1, 1997 for Medical Center employees or July 1, 1997 for SMI employees vested after four years of service, with no vesting prior to four years of service. Effective January 1, 2018, Mercy made the following changes to the 401(k) plan: The age and service requirement used to calculate Mercy's match will be made at the beginning of each calendar quarter (as opposed to January 1). Additionally, the vesting schedule was changed to a 3-year cliff as described below. There is no age limit for participation in the plans which occurred retroactive to January 1, 2016.

Effective January 1, 2019, the plan was frozen and all contributions for MHS subsequent to this date are being directed to the 403(b) Plan. MHS has a qualified 403(b) plan covering substantially all employees of Mercy Medical Center and SMI. Eligibility for the employer match begins after the completion of one year of service. MHS makes a quarterly contribution on behalf of all eligible employees based on the employee's contributions into the 403(b). MHS matches up to 50% of an employee's contribution not to exceed 6% of the employee's salary. The MHS match increases based on age and years of services threshold up to 100% of the amount contributed by the employee not to exceed 6% of the employee's salary. Maryland Family Care (MFC) employees are matched up to 50% of their contribution not to exceed 6% of the employee's salary and their match does not increase with age and years of service. MHS' contributions into the 403(b) for all participants are vested after three years of service, with no vesting prior to three years of service. By December 31, 2021, generally all participants who had existing 401(k) Plan employer matching contribution accounts who were still employed by Mercy were fully vested.

Effective April 1, 2022, the 401(k) Plan was merged into the 403(b) Plan, with the 403(b) Plan being the surviving plan. Additionally, effective January 1, 2023, eligibility for the match will begin after the completion of six (6) months of service. Lastly, effective July 1, 2023, Mercy Health Services will transition from a revenue sharing administrative fee structure to a transparent administrative fee structure for all qualified and non-qualified retirement plans.

Contributions under these plans totaled $7,742 and $6,848 for the years ended June 30, 2024 and 2023, respectively.

Note 14. Post-Retirement Benefit Plan

MMC has an unfunded contributory health and medical post-retirement benefit plan available to all eligible employees who meet certain age and length of service requirements as defined by the plan. The plan provides for health and medical benefits including primary care physician and specialist visits, hospitalization and emergency care, prescription drugs, vision care and Medicare supplemental coverage.

(in thousands)

The following table sets forth the components of the MHS obligation at June 30:

	2024	2023
Change in benefit obligation		
Benefit obligation at beginning of year	$ 6,107	$ 7,239
Service cost	25	35
Interest cost	291	312
Actuarial gain and assumption changes	(104)	(993)
Employer portion of benefits paid	(441)	(486)
Benefit obligation at end of year	5,878	6,107
Change in plan assets		
Employer contribution	441	486
Benefits paid	(441)	(486)
Fair value of plan assets at end of year	-	-
Unfunded status	(5,878)	(6,107)
Accrued post-retirement benefit cost	(5,878)	(6,107)
Less current portion included in accounts payable and accrued expenses	344	328
Total accrued post-retirement benefit cost, long-term portion	$ (5,534)	$ (5,779)

Net periodic post-retirement benefit cost included the following for the years ended June 30:

	2024	2023
Service cost - benefits attributed to service during the period	$ 25	$ 35
Interest cost on accumulated post-retirement benefit obligation	291	312
Net amortization	(131)	-
Net post-retirement benefit cost	$ 185	$ 347

Amounts not yet recognized as a component of net periodic pension cost include net actuarial gain of $1,418 and $1,445 as of June 30, 2024 and 2023, respectively. Estimated amortization of the net loss of $186 is expected to be recognized in benefit expenses in the next fiscal year.

The weighted average discount rate used in determining the accumulated post-retirement benefit obligation (APBO) for the plan was 5.30% and 4.90% for the years ended June 30, 2024 and 2023, respectively. For measurement purposes, the health care cost trend rates used in determining the APBO for the plan were 7.5% in 2024 and 2023.

(in thousands)

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

	Benefit Payments
2025	$ 344
2026	$ 365
2027	$ 382
2028	$ 394
2029	$ 398
20230-2034	$ 2,033

Note 15. Retirement Annuity Plan

MMC had a pension plan that was terminated on April 1, 1997 and established a retirement annuity plan under which certain participants of the terminated plan were entitled to annuity payments. Participants in the plan include (a) the retirees and beneficiaries entitled to benefits from the terminated plan on April 1, 1997 and (b) other participants with benefits worth more than $4 that elected an annuity. All benefits are vested and based on the frozen accrued benefits at April 1, 1997.

The measurement dates for fiscal years 2024 and 2023 were June 30, 2024 and June 30, 2023, respectively. The following table sets forth the funded status of the retirement annuity plan and amounts recognized in accompanying consolidated financial statements as of and for the years ended June 30:

	2024	2023
Change in benefit obligation		
Benefit obligation at beginning of year	$ 2,494	$ 3,097
Interest cost	108	100
Actuarial gain	(3)	(225)
Benefits paid	(435)	(478)
Benefit obligation at end of year	2,164	2,494
Change in plan assets		
Fair value of plan assets at beginning of year	581	1,046
Actuarial return on plan assets	13	13
Employer contribution	1,000	-
Benefits paid	(435)	(478)
Fair value of plan assets at end of year	1,159	581
Unfunded status/accrued benefit cost (Note 23)	$ (1,005)	$ (1,913)
Net periodic pension cost		
Interest cost	$ 108	$ 100
Expected return on plan assets	(38)	(68)
Amortization net (gain) loss	113	111
Net periodic pension cost	$ 183	$ 143

(in thousands)

Amounts not yet recognized as a component of net periodic pension cost include net actuarial loss of $963 and $1,054 as of June 30, 2024 and 2023, respectively. There is no estimated amortization of the net loss expected to be recognized in net periodic pension costs in the next fiscal year. There is no minimum projected required contribution for the period ending June 30, 2025.

The discount rate to estimate the benefit obligation as of June 30, 2024 and 2023 was 5.25% and 4.75%, respectively. The expected rate of return on plan assets to estimate the benefit obligation was 6.5% for 2024 and 2023.

The weighted-average asset allocations in the plan as of June 30, 2024 and 2023, by asset category were as follows:

	2024	2023
Asset Category		
Cash and cash equivalents	100%	100%
Total	100%	100%

The fair values of plan assets on a recurring basis as of June 30, 2024 by asset category are as follows:

Assets	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents	$ 1,159	$ -	$ -	$ 1,159
Total assets fair value	$ 1,159	$ -	$ -	$ 1,159

The fair values of plan assets on a recurring basis as of June 30, 2023 by asset category are as follows:

Assets	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents	$ 581	$ -	$ -	$ 581
Total assets fair value	$ 581	$ -	$ -	$ 581

There were no significant transfers between levels for the years ended June 30, 2024 and 2023.

The following benefit payments are expected to be paid for the following years ending June 30:

	Benefit Payments
2025	$ 391
2026	$ 350
2027	$ 311
2028	$ 273
2029	$ 237
Next 5 years	$ 756

(in thousands)

Note 16. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following health care services and endowment funds at June 30:

	2024	2023
Mercy Forever campaign	$ 29,307	$ 25,866
Departmental expenses	10,363	9,988
Other	3,792	4,064
Pastoral care	4,516	4,516
Capital improvements	2,669	2,657
Research programs	2,570	2,193
Indigent care	1,257	806
SMI hospice endowment	1,055	1,055
Weinberg endowment	1,000	1,000
Education programs	743	739
Dr. Goodman endowment	123	123
	$ 57,395	$ 53,007

The Mercy Forever campaign net assets are restricted for the purpose of sustaining and advancing Mercy's innovating programs and patient centered services in perpetuity. Including but not limited to, community health programs, technology, education, barriers to health equity, and programs enhancing the care of our aging population.

Note 17. Commitments and Contingent Liabilities

Litigation

MHS has outstanding litigation involving claims brought against it in the normal course of business. Litigation in the normal course of business, as well as responses to claims and investigations described below, can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings and government investigations are difficult to predict and in certain cases the likelihood of outcome is unknown. Like most healthcare organizations, MHS receives inquiries, request for information regarding clinical procedures, licensing, taxes, billing or medical record documentation matters from various State and Federal agencies. MHS responds to such requests and provides any detailed information requested. Attorneys for MHS are representing MHS in all of the above matters. Management is currently unable to estimate, with reasonable certainty, the possible loss, or range of loss, if any, for such lawsuits and investigations. MHS is also subject to asserted and unasserted claims (in addition to litigation) encountered in the ordinary course of business. As a result of the current level of governmental and public concerns with health care fraud and abuse, management recognizes that additional investigative activity could occur in the future. In the opinion of management and after consultation with legal counsel, management believes it has established adequate accrued reserves related to all known matters. The outcome of certain litigation, as well as any potential investigative, regulatory, or prosecutorial activity that may occur in the future is unknown. Accordingly, any associated potential future losses resulting from such matters could have a material adverse effect on the future financial position, results of operations and liquidity of MHS.

(in thousands)

Self-Insurance Programs

As discussed in Notes 1 and 10, GIC provides general and professional liability coverage to MHS and its subsidiaries. GIC's policies provide primary and certain excess liability coverage. GIC retains the risk related to the primary policy and reinsures the whole of the excess policies. While insurance policy limits vary by year, management believes the amounts are appropriate.

GIC's primary coverage limits for the years ended June 30 are:

	2024	**2023**
Healthcare Professional Liability (HPL) and Managed Care Organization Liability (MCO)	$9,000 per related loss event $42,000 aggregate	$9,000 per related loss event $42,000 aggregate
Commercial General Liability (CGL)	$9,000 per occurrence $42,000 aggregate	$9,000 per occurrence $42,000 aggregate

GIC's primary coverage for HPL is $9,000 per loss event. GIC provides excess coverage for HPL and MCO in the aggregate amount of $75,000 in excess of $9,000 for related loss events and in excess of $42,000 for fiscal years 2024 and 2023. GIC provides excess coverage for CGL in the aggregate amount of $75,000 in excess of $9,000 per occurrence and in excess of $42,000 aggregate for fiscal years 2024 and 2023. All excess coverage is reinsured by commercial insurance companies.

In management's opinion, the assets of GIC are sufficient to meet its obligations as of June 30, 2024. If the financial condition of GIC were to materially deteriorate in the future, and GIC were unable to pay its claim obligations, the responsibility to pay those claims would return to MHS.

MHS and certain of its subsidiaries are self-insured against employee medical claims. Plan expenses include claims incurred and provisions for unreported claims. However, the program has an annual aggregate stop loss provision per employee.

MHS and certain of its subsidiaries are self-insured in the State of Maryland for the use and benefit of all employees of MHS for worker's compensation. The State of Maryland requires any self-insured employer to provide a workers' compensation surety bond issued by a corporate surety company that meets the State's financial rating under A.M. Best. MHS has had a surety bond in place since 1997 currently written by Fidelity and Deposit Company of Maryland in the amount of $2,800. All past, present, existing and potential liability under this bond shall remain in effect and to the benefit of the State of Maryland.

MHS and certain of its subsidiaries are self-insured against unemployment claims and have surety bonds of $1,725 for the Medical Center and $382 for SMI. The amounts change each October 1 as dictated by the Maryland Department of Licensing and Regulation.

Note 18. Maryland Health Services Cost Review Commission

The Medical Center's charges are subject to review and approval by the State of Maryland Health Services Cost Review Commission (HSCRC). Management has made the required filings with the Commission and believes the Medical Center to be in compliance with the Commission's requirements. The Commission has jurisdiction over hospital reimbursement in Maryland by agreement with the Centers for Medicare and Medicaid Services. This agreement is based on a waiver from the Medicare Prospective Payment System reimbursement principles granted under Section 1814(b) of the Social Security Act. On January 1, 2014, Maryland's All-Payer Hospital System Modernization was approved by CMS. This was a new global budget arrangement which set a fixed revenue amount for the upcoming year, without fluctuation due to utilization or case mix. This was a five-year demonstration where Maryland successfully made significant progress toward reducing costs inside and outside of the hospital as well as improving patient care. Beginning January 2019, the new “Total Cost of Care Model” (the Model) was approved and builds upon the successes of the All-Payer Model. The Model encourages continued clinical redesign and provides tools to providers to treat complex and chronic conditions and is built on the same global budget arrangement mechanics for revenue setting as the predecessor model. This is approved for a 10-year term provided Maryland meets the Model performance requirements.

The Commission established an uncompensated care fund whereby all hospitals are required to contribute 0.75% of revenues to this fund to help provide for the cost associated with uncompensated care for certain Maryland hospitals above the State average. In December 2008, the Commission modified this mechanism to finance uncompensated care statewide. The policy implemented 100% pooling and all Maryland hospitals have the same percentage of uncompensated care in rates. High uncompensated care hospitals receive funds and low uncompensated care hospitals pay into the fund. The Medical Center had net payments of $748 for 2024 and receipts of $1,835 for 2023, related to its participation in the uncompensated care fund mechanism.

The Commission's rate-setting methodology for service centers that provide both inpatient and outpatient services or only outpatient services consist of establishing an acceptable unit rate for these centers within the applicable facility. The actual average unit charge for each service center is compared to the approved rate on a monthly basis. The rate variances, plus penalties where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis. The timing of the Commission's rate adjustments for the Medical Center could result in an increase or reduction due to the variances and penalties described above in a year subsequent to the year in which such items occur. MHS’ policy is to accrue revenue based on actual charges for services to patients in the year in which the services are performed and billed.

Under the global budget arrangement established by the HSCRC, the Medical Center is required to modify revenue rates based on regulated patient volume. The Medical Center volumes and set HSCRC rates created a minor Global Budget undercharge of $966 and $1,400, for fiscal years 2024 and 2023, respectively.

The U.S. Federal Housing Administration (FHA) has contracted with CSC under Section 8 of Title II of the Housing and Community Development Act of 1974 to make housing assistance payments to CSC on behalf of certified tenants. For fiscal years 2024 and 2023, the maximum contract commitment was $1,608 and $1,440 per year, respectively. During the years ended June 30, 2024 and 2023, CSC received housing assistance payments of $1,097 and $1,130, respectively, which are included in patient service revenue in the accompanying consolidated statements of operations. The contract automatically renews each year on April 1 with an expiration date of March 31, 2033, subject to renewal at that time.

Note 19. Functional Expenses

MHS and its subsidiaries provide general health care services to patients within what they consider their geographic service areas. Expenses related to providing these services, based on management’s estimates of expense allocations, are as follows for the years ended June 30:

(in thousands)

	2024			
	Healthcare Services	**General and Administrative**	**Fundraising**	**Total**
Salaries and benefits	$ 492,172	$ 41,929	$ 1,971	$ 536,072
Supplies	203,506	6,041	138	209,685
Other purchased services	44,514	20,355	451	65,320
Insurance	27,749	3,514	-	31,263
Professional fees	21,890	702	120	22,712
Depreciation and amortization	32,026	11,607	-	43,633
Interest	8,797	4,891	-	13,688
Repairs	17,058	6,065	195	23,318
Total	$ 847,712	$ 95,104	$ 2,875	$ 945,691

	2023			
	Healthcare Services	**General and Administrative**	**Fundraising**	**Total**
Salaries and benefits	$ 441,868	$ 66,136	$ 1,791	$ 509,795
Supplies	190,303	6,191	77	196,571
Other purchased services	42,252	20,765	197	63,214
Insurance	19,587	2,507	-	22,094
Professional fees	21,003	1,446	8	22,457
Depreciation and amortization	31,564	11,671	-	43,235
Interest	8,551	4,704	-	13,255
Repairs	14,746	4,945	199	19,890
Total	$ 769,874	$ 118,365	$ 2,272	$ 890,511

The accompanying consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. These expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest, and other occupancy costs, are allocated to a function based on a square footage basis.

Note 20. Liquidity and Availability

As of June 30, 2024 and 2023 , MHS had working capital of approximately $204,222 and $187,324, respectively, and average days (based on normal expenditures) cash on hand of 239 and 246, respectively.

(in thousands)

Financial assets available for general expenditure within one year of the consolidated balance sheet date consist of the following at June 30:

	2024	2023
Cash and cash equivalents	$ 269,820	$ 261,559
Patient accounts receivable, net	96,788	80,464
Other accounts receivables, net	820	4,734
Short-term investments	1,815	1,778
Current portion of funds held by trustee	5,551	13,427
Total	$ 374,794	$ 361,962

In addition to the assets described above, MHS has other assets whose use is limited for specified purposes, and because they are not available for general expenditure within one year such assets are not reflected in the amounts above. MHS does, however, have certain long-term assets including general investments whose use is limited by board designation that could be made available for general expenditure within one year, if necessary.

Note 21. Certain Risks and Uncertainties

Regulation And Reimbursement

MHS provides health care services primarily through an acute care hospital in Baltimore City and a long-term care facility in Baltimore County, Maryland.

MHS and other healthcare providers in Maryland are subject to certain inherent risks, including the following:

- Dependence on revenues derived from reimbursement by the federal Medicare and State Medicaid programs;
- Regulation of hospital rates by the Commission;
- Government regulation, government budgetary constraints and proposed legislative and regulatory changes; and
- Lawsuits alleging malpractice and related claims.

Such inherent risks require the use of certain management estimates in the preparation of the consolidated financial statements of MHS, and it is reasonably possible that a change in such estimates may occur.

The Medicare and state Medicaid reimbursement programs represent a substantial portion of MHS' revenues and MHS' operations are subject to a variety of other federal, state and local regulatory requirements. Failure to maintain required regulatory approvals and licenses and/or changes in such regulatory requirements could have a significant adverse effect on MHS. Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on MHS.

The federal government and many states have aggressively increased enforcement under Medicare and Medicaid anti-fraud and abuse laws and physician self-referral laws. Recent federal initiatives have prompted a national review of federally funded health care programs. In addition, the federal government and many states have implemented programs to audit and recover potential overpayments to providers from the Medicare and Medicaid programs. MHS has implemented a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future governmental review and enforcement action exists. 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.

As a result of federal health care reform legislation, substantial changes are underway in the U.S. health care delivery system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over the next decade. The known impact of all currently applicable federal health care reform legislation has been accounted for in the consolidated financial statements for the year ended June 30, 2024.

Investments

MHS and certain of its subsidiaries have funds on deposit with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation.

Certain alternative investments held in the MHS portfolio are exposed to potential risks in excess of the risks associated with the other investments in the MHS portfolio. These include, but are not limited to, the following potential risks:

- limited or no liquidity (including “side pocket” arrangements),
- derivative financial instruments that expose the investment funds to market risk (if the market value of the contract is higher or lower than the contract price at the maturity date) and credit risk (arising from the potential inability of counterparties to perform under the terms of the contracts),
- investment in non-marketable securities that are valued without the benefit of an active secondary market,
- substantially less regulation, and
- no current income production.

Note 22. Endowment

Current accounting standards provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization’s endowment funds. In 2008, the State of Maryland adopted UPMIFA.

The MHS endowments consist of three individual funds established for a variety of purposes. The endowments include both endowment funds with donor restrictions and funds designated by the board of trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of trustees of MHS has interpreted the Maryland State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, MHS classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund with donor restrictions is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, MHS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund

(in thousands)

3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

MHS has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of funds with donor restrictions that must be held in perpetuity.

To satisfy its long-term rate-of-return objectives, MHS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). MHS targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

At June 30, 2024, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted funds	$ 635	$ 2,178	$ 2,813

At June 30, 2023, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted funds	$ 449	$ 2,178	$ 2,627

Changes in endowment net assets for the fiscal year ended June 30, 2024, consisted of the following:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 449	$ 2,178	$ 2,627
Investment return			
Investment gain	186	-	186
Endowment net assets, end of year	$ 635	$ 2,178	$ 2,813

(in thousands)

Changes in endowment net assets for the fiscal year ended June 30, 2023, consisted of the following:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 268	$ 2,178	$ 2,446
Investment return			
Investment loss	181	-	181
Endowment net assets, end of year	$ 449	$ 2,178	$ 2,627

Note 23. Other Long-Term Liabilities

Other long-term liabilities consist of the following at June 30:

	2024	2023
Retirement annuity plan	$ 1,005	$ 1,913
Other	2,251	2,370
	$ 3,256	$ 4,283

Note 24. Leases

MHS leases certain equipment and office buildings under the terms of non-cancellable operating leases. For leases with terms greater than 12 months, the related right-of-use assets and right-of-use obligations are recorded at the present value of lease payments over the term. Many of the leases include rental escalation clauses and renewal options that are factored into the determination of lease payments when appropriate.

Rental expense associated with operating leases was $7,437 and $7,638 for the years ended June 30, 2024 and 2023, respectively, which is recorded in the consolidated financial statements as other purchased services. These amounts approximated the cash paid associated with finance leases for the years then ended.

Current operating lease liabilities are included in operating lease liability, current in the accompanying consolidated balance sheets. Noncurrent operating lease liabilities are included in the operating lease liabilities in the accompanying consolidated balance sheets.

(in thousands)

The following table presents lease-related assets and liabilities at June 30:

	2024	2023
Operating leases		
Right-of-use operating lease assets	$ 43,713	$ 40,302
Current operating lease liabilities	$ 3,841	$ 4,012
Noncurrent operating lease liabilities	42,275	38,039
Total operating lease liabilities	$ 46,116	$ 42,051
Other information		
Right of use assets obtained in exchange for new operating lease liabilities	$ 5,863	$ -
Weighted-average remaining lease term – equipment operating leases	1.37 years	2.04 years
Weighted-average remaining lease term – property operating leases	30.33 years	33.14 years
Weighted-average discount rate – operating leases	3.81%	3.81%

The following is a schedule of lease liability maturities related to operating leases with third parties for the years ending June 30:

	Equipment	Property	Total
2025	$ 706	$ 3,245	$ 3,951
2026	208	3,299	3,507
2027	-	3,332	3,332
2028	-	3,388	3,388
2029	-	3,380	3,380
Thereafter	-	66,578	66,578
Total	914	83,222	84,136
Less: interest	(33)	(37,987)	(38,020)
Lease liability	$ 881	$ 45,235	$ 46,116

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Note 25. Subsequent Events

Management evaluated all events and transactions for potential recognition and disclosure that occurred after June 30, 2024 and through September 11, 2024, the date the consolidated financial statements were issued.

Supplementary Financial Information

Mercy Health Services, Inc. and Subsidiaries
Consolidating Balance Sheet Information
June 30, 2024
(in thousands)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
ASSETS							
Current Assets							
Cash and cash equivalents	$ 832	$ 14,269	$ 240,988	$ 13,222	$ 509	$ -	$ 269,820
Short-term investments	-	-	-	1,815	-	-	1,815
Current portion of funds held by trustee	-	-	4,949	602	-	-	5,551
Resident prepayment deposits	-	-	-	1,085	-	-	1,085
Patient accounts receivable, net	-	-	58,100	11,052	27,636	-	96,788
Other amounts receivable, net	534	-	4,543	388	2,179	(6,824)	820
Current pledges receivable, net	-	2,789	-	-	-	-	2,789
Supplies inventory	-	-	10,564	96	2,838	-	13,498
Other current assets	-	64	1,482	95	949	-	2,590
Total current assets	1,366	17,122	320,626	28,355	34,111	(6,824)	394,756
Property and Equipment, Net	-	-	472,672	49,810	25,569		548,051
Investments and Other Assets							
Funds held by trustee, less current portion	-	-	-	1,914	-	-	1,914
Board designated and donor restricted investments	29,699	30,414	265,206	25,971	-	-	351,290
Assets held for self-Insurance	-	-	173,912	-	-		173,912
Long-term pledges receivable, net	-	20,785	46,782	8,759	-	(55,541)	20,785
Investments in and advances to affiliates	18,163	(11,684)	14,443	(7,383)	(4,888)	(3,000)	5,651
Reinsurance receivable	-	-	6,951	6,235	-	(6,235)	6,951
Right of use assets	-	-	29,420	-	14,293	-	43,713
Other assets	138	-	2,490	210	736	-	3,574
Total assets	$ 49,366	$ 56,637	$ 1,332,502	$ 113,871	$ 69,821	$ (71,600)	$ 1,550,597

Mercy Health Services, Inc. and Subsidiaries
Consolidating Balance Sheet Information
June 30, 2024
(in thousands)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
LIABILITIES AND NET ASSETS							
Current Liabilities							
Current portion of long-term debt	$ -	$ -	$ 12,440	$ 495	$ -	$ -	$ 12,935
Accounts payable and accrued expenses	517	208	105,789	7,927	35,810	(6,937)	143,314
Advances from third-party payers	-	-	21,716	-	-	-	21,716
Medicare advance contract liability, current	-	-	-	-	-	-	-
Resident prepayment deposits	-	-	406	945	-	-	1,351
Provision for outstanding losses, current	-	-	7,377	295	-	(295)	7,377
Right of use lease liability, current	-	-	2,766	-	1,075	-	3,841
Total current liabilities	517	208	150,494	9,662	36,885	(7,232)	190,534
Long-Term Debt, Less Current Portion	-	-	326,927	19,298	-	-	346,225
Provision for Outstanding Losses, Long-Term	-	-	148,482	5,941	-	(5,940)	148,483
Post-Retirement Obligation	-	-	5,534	-	-	-	5,534
Interest Rate Swap Liabilities	-	-	4,286	-	-	-	4,286
Operating Lease Liabilities	-	-	28,341	-	13,934	-	42,275
Other Long-Term Liabilities	-	-	1,005	-	2,251	-	3,256
Total liabilities	517	208	665,069	34,901	53,070	(13,172)	740,593
Net Assets							
Without donor restrictions	48,849	885	620,556	70,211	14,995	(2,887)	752,609
With donor restrictions	-	55,544	46,877	8,759	1,756	(55,541)	57,395
Total net assets	48,849	56,429	667,433	78,970	16,751	(58,428)	810,004
Total liabilities and net assets	$ 49,366	$ 56,637	$ 1,332,502	$ 113,871	$ 69,821	$ (71,600)	$ 1,550,597

Mercy Health Services, Inc. and Subsidiaries
Consolidating Balance Sheet Information
June 30, 2023
(in thousands)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
ASSETS							
Current Assets							
Cash and cash equivalents	$ 832	$ 10,443	$ 236,705	$ 12,808	$ 771	$ -	$ 261,559
Short-term investments	-	-	-	1,778	-	-	1,778
Current portion of funds held by trustee	-	-	12,883	544	-	-	13,427
Resident prepayment deposits	-	-	-	797	-	-	797
Patient accounts receivable, net	-	-	50,392	9,341	20,731	-	80,464
Other amounts receivable, net	547	-	6,320	784	3,837	(6,754)	4,734
Current pledges receivable, net	-	2,595	-	-	-	-	2,595
Supplies inventory	-	-	11,753	188	2,926	-	14,867
Other current assets	-	-	2,728	15	792	-	3,535
Total current assets	1,379	13,038	320,781	26,255	29,057	(6,754)	383,756
Property and Equipment, Net	-	-	472,521	49,779	21,199	-	543,499
Investments and Other Assets							
Funds held by trustee, less current portion	-	-	-	1,601	-	-	1,601
Board designated and donor restricted investments	26,979	27,442	240,919	23,593	-	-	318,933
Assets held for self-Insurance	-	-	145,191	-	-		145,191
Long-term pledges receivable, net	-	21,815	44,231	7,152	-	(51,383)	21,815
Investments in and advances to affiliates	17,627	(9,977)	9,597	(5,164)	(4,519)	(3,000)	4,564
Reinsurance receivable	-	-	6,335	6,235	-	(6,235)	6,335
Right of use assets	-	-	31,830	-	8,472	-	40,302
Other assets	138	-	2,197	178	1,113	-	3,626
Total assets	$ 46,123	$ 52,318	$ 1,273,602	$ 109,629	$ 55,322	$ (67,372)	$ 1,469,622

Mercy Health Services, Inc. and Subsidiaries
Consolidating Balance Sheet Information
June 30, 2023
(in thousands)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
LIABILITIES AND NET ASSETS							
Current Liabilities							
Current maturities of long-term debt	$ 26	$ -	$ 12,000	$ 482	$ -	$ -	$ 12,508
Accounts payable and accrued expenses	632	50	111,283	10,103	34,067	(6,867)	149,268
Advances from third-party payers	-	-	22,791	-	-	-	22,791
Resident prepayment deposits	-	-	167	797	-		964
Provision for outstanding losses, current	-	-	6,889	308	-	(308)	6,889
Right-of-use lease liability, current	-	-	3,160	-	852	-	4,012
Total current liabilities	658	50	156,290	11,690	34,919	(7,175)	196,432
Long-Term Debt, Less Current Portion	12	-	339,903	19,759	-	-	359,674
Provision for Outstanding Losses, Long-Term	-	-	132,588	5,928	-	(5,927)	132,589
Post-Retirement Obligation	-	-	5,779	-	-	-	5,779
Interest Rate Swap Liabilities	-	-	6,529	-	-	-	6,529
Operating Lease Liabilities	-	-	30,001	-	8,038	-	38,039
Other Long-Term Liabilities	-	-	1,913	-	2,370	-	4,283
Total liabilities	670	50	673,003	37,377	45,327	(13,102)	743,325
Net Assets							
Without donor restrictions	45,453	885	556,232	65,100	8,507	(2,887)	673,290
With donor restrictions	-	51,383	44,367	7,152	1,488	(51,383)	53,007
Total net assets	45,453	52,268	600,599	72,252	9,995	(54,270)	726,297
Total liabilities and net assets	$ 46,123	$ 52,318	$ 1,273,602	$ 109,629	$ 55,322	$ (67,372)	$ 1,469,622

Mercy Health Services, Inc. and Subsidiaries
Consolidating Statement of Operations Information
Year Ended June 30, 2024
(in thousands)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
Revenues							
Patient service revenue	$ -	$ -	$ 580,880	$ 71,241	$ 277,084	$ -	$ 929,205
Other operating revenue	4,023	956	43,236	9,566	15,694	(20,949)	52,526
Net Assets Released from Restrictions Used for Operations	-	-	4,474	330	1,011	-	5,815
Total revenues	4,023	956	628,590	81,137	293,789	(20,949)	987,546
Expenses							
Salaries and benefits	3,715	1,971	281,570	53,698	203,911	(8,793)	536,072
Medical and surgical supplies	-	-	77,953	848	2,513	-	81,314
Pharmacy supplies	-	-	24,454	1,600	63,092	-	89,146
Other expendable supplies	2	138	31,860	5,327	1,898	-	39,225
Professional fees	-	120	10,395	5,225	8,682	(1,710)	22,712
Insurance	-	-	23,355	957	6,983	(32)	31,263
Other purchased services	301	181	79,336	5,438	(7,873)	(12,063)	65,320
Interest expense	-	-	12,836	852	-	-	13,688
Repairs	-	195	19,073	1,946	2,104	-	23,318
Depreciation and amortization	-	-	37,290	2,961	3,382	-	43,633
Total expenses	4,018	2,605	598,122	78,852	284,692	(22,598)	945,691
Operating income (loss)	5	(1,649)	30,468	2,285	9,097	1,649	41,855

Mercy Health Services, Inc. and Subsidiaries
Consolidating Statement of Operations Information
Year Ended June 30, 2024
(in thousands)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
Other Income (Losses)							
Investment income	$ 1,101	$ 1,265	$ 10,880	$ 1,155	$ -	$ (1,265)	$ 13,136
Net unrealized gain on investments	1,569	384	17,761	1,650	-	(384)	20,980
Unrealized gain on interest rate swap	-	-	2,243	-	-	-	2,243
Equity earnings in joint ventures	721	-	54	-	-	-	775
Other	-	-	15	52	-	-	67
Net other income (losses) income	3,391	1,649	30,953	2,857	-	(1,649)	37,201
Excess of Revenues Over Expenses	3,396	-	61,421	5,142	9,097	-	79,056
Changes to Pension and Post Retirement Plan Obligations	-	-	35	-	-	-	35
Transfer of Net Assets	-	-	2,609	-	(2,609)	-	-
Net Assets Released from Restrictions for the Purchase of Property and Equipment	-	-	259	(31)	-	-	228
Increase (decrease) in net assets without donor restriction	$ 3,396	$ -	$ 64,324	$ 5,111	$ 6,488	$ -	$ 79,319

Mercy Health Services, Inc. and Subsidiaries
Consolidating Statement of Operations Information
Year Ended June 30, 2023
(in thousands)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
Revenues							
Patient service revenue	$ -	$ -	$ 561,312	$ 63,801	$ 261,618	$ -	$ 886,731
Other operating revenue	4,443	408	39,744	9,656	12,696	(19,879)	47,068
Net Assets Released from Restrictions Used for Operations	-	-	1,423	1,155	898	-	3,476
Total revenues	4,443	408	602,479	74,612	275,212	(19,879)	937,275
Expenses							
Salaries and benefits	4,173	1,791	271,741	49,763	190,956	(8,629)	509,795
Medical and surgical supplies	-	-	73,818	936	2,111	-	76,865
Pharmacy supplies	-	-	22,736	1,340	56,393	-	80,469
Other expendable supplies	-	77	31,753	5,721	1,686	-	39,237
Professional fees	-	8	10,240	4,913	8,965	(1,669)	22,457
Insurance	-	-	14,138	953	7,035	(32)	22,094
Other purchased services	236	193	75,049	5,548	(6,402)	(11,410)	63,214
Interest expense	-	-	12,477	778	-	-	13,255
Repairs	-	199	16,122	1,765	1,804	-	19,890
Depreciation and amortization	-	-	37,266	2,937	3,032	-	43,235
Total expenses	4,409	2,268	565,340	74,654	265,580	(21,740)	890,511
Operating income (loss)	34	(1,860)	37,139	(42)	9,632	1,861	46,764

Mercy Health Services, Inc. and Subsidiaries
Consolidating Statement of Operations Information
Year Ended June 30, 2023
(in thousands)

	Mercy Health Services, Inc.	Mercy Health Foundation, Inc.	Mercy Medical Center, Inc.	Stella Maris, Inc.	Physician Enterprise	Eliminations	Consolidated
Other Income (Losses)							
Investment income	$ 203	$ 440	$ 2,512	$ 270	$ -	$ (440)	$ 2,985
Net unrealized gain on investments	1,999	1,423	19,271	2,175	-	(1,423)	23,445
Unrealized loss on interest rate swap	-	-	4,872	-	-	-	4,872
Equity earnings in joint ventures	686	-	314	-	-	-	1,000
Other	-	-	(384)	-	-	-	(384)
Net other (losses) income	2,888	1,863	26,585	2,445	-	(1,863)	31,918
(Deficiency) Excess of Revenues (Under) Over Expenses	2,922	3	63,724	2,403	9,632	(2)	78,682
Changes to Pension and Post Retirement Plan Obligations	-	-	966	-	-	-	966
Transfer of Net Assets	-	-	16,020	-	(16,020)	-	-
Federal Grant Funding for the Purchase of Property and Equipment	-	-	251	-	-	-	251
Net Assets Released from Restrictions for the Purchase of Property and Equipment	-	-	(50)	178	-	-	128
(Decrease) increase in net assets without donor restriction	$ 2,922	$ 3	$ 80,911	$ 2,581	$ (6,388)	$ (2)	$ 80,027