KPMG

CENTRACARE HEALTH SYSTEM

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2024 and 2023

(With Independent Auditors' Report Thereon)

CENTRACARE HEALTH SYSTEM

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KPMG LLP
Suite 600
350 N. 5th Street
Minneapolis, MN 55401

Independent Auditors' Report

The Board of Directors
CentraCare Health System:

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the System as of June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 U.S. generally accepted accounting principles, 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 the System's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' 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 auditors' 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.

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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 the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information, which includes the consolidating balance sheet information as of June 30, 2024 and consolidating statement of operations and changes in net assets information for the year ended June 30, 2024 of the System, are presented for purposes of additional analysis of the consolidated financial statements and are 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 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 GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Minneapolis, Minnesota
September 5, 2024

CENTRACARE HEALTH SYSTEM

Consolidated Balance Sheets

June 30, 2024 and 2023

(Dollars in thousands)

Assets	2024	2023
Current assets:		
Cash and cash equivalents	$ 135,927	132,791
Accounts receivable:		
Patients and residents	256,433	243,245
Other receivables	45,051	51,978
Inventories and supplies	35,904	36,495
Prepaid expenses and other	23,384	23,343
Current assets held for sale	1,794	—
Current portion of funds held by trustees under bond indentures	—	18
Total current assets	498,493	487,870
Assets whose use is limited:		
Funds held by trustee under trust and escrow agreements	4,748	4,202
Funds held by trustee under bond indentures, net of current portion	26,575	28,007
Long-term investments	1,191,262	1,061,611
Assets whose use is limited, net of current portion	1,222,585	1,093,820
Property and equipment, net	781,038	834,190
Operating leased assets	17,076	23,326
Goodwill	57,869	57,869
Other assets	55,624	52,258
Total assets	$ 2,632,685	2,549,333
Liabilities and Net Assets		
Current liabilities:		
Current maturities of long-term debt	$ 121,748	18,075
Accounts payable	85,587	89,792
Third-party payor settlements	15,198	12,559
Accrued salaries and benefits	159,940	150,734
Unearned revenues – Medicare accelerated payments	—	455
Other current liabilities	10,801	13,504
Total current liabilities	393,274	285,119
Long-term liabilities:		
Long-term debt	414,403	536,976
Interest rate swap instruments	8,689	11,557
Accrued pension liability	17,641	23,851
Other liabilities	35,151	44,707
Total long-term liabilities	475,884	617,091
Total liabilities	869,158	902,210
Net assets:		
Without donor restrictions	1,742,445	1,628,719
Without donor restrictions – noncontrolling interest	4,059	5,736
Total net assets without donor restrictions	1,746,504	1,634,455
Net assets with donor restrictions	17,023	12,668
Total net assets	1,763,527	1,647,123
Total liabilities and net assets	$ 2,632,685	2,549,333

See accompanying notes to consolidated financial statements.

CENTRACARE HEALTH SYSTEM

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2024 and 2023

(Dollars in thousands)

	2024	2023
Revenue:		
Patient and resident service revenue	$ 1,906,862	1,826,853
COVID-19 grant revenue	—	577
Other operating revenue	91,135	85,142
Total revenue	1,997,997	1,912,572
Expenses:		
Salaries and employee benefits	1,230,486	1,222,428
Supplies and other	639,329	585,671
Interest	19,586	19,898
Depreciation and amortization	80,691	83,949
Total expenses	1,970,092	1,911,946
Operating gains (losses) before divestitures	27,905	626
Other operating gains (losses)		
Gain (loss) on divestiture	(47,742)	5,520
Operating income (loss)	(19,837)	6,146
Nonoperating gains (losses):		
Investment gains (losses), net	125,400	90,799
Gains on interest rate swaps, net	3,523	8,208
Contributed net assets of affiliates	—	14,548
Other gains (losses), net	2,894	(2,927)
Total nonoperating gains (losses), net	131,817	110,628
Excess of revenue and gains over expenses and losses	111,980	116,774
Less revenues in excess of expenses attributable to noncontrolling interest	(2,323)	(2,343)
Excess of revenue and gains over expenses and losses attributable to CentraCare	109,657	114,431
Net assets without donor restrictions:		
Net assets released from restrictions	355	2,152
Adjustment to the funded status of the pension plan	6,640	6,153
Other changes, net	(2,926)	(1,360)
Change in net assets without donor restrictions	113,726	121,376
Net assets without donor restrictions, noncontrolling interest:		
Revenue and gains in excess of expenses and losses	2,323	2,343
Distributions to noncontrolling interest	(4,000)	(4,000)
Change in net assets without donor restrictions, noncontrolling interest	(1,677)	(1,657)
Net assets with donor restrictions:		
Contributions	3,512	2,696
Net assets released from restrictions	(355)	(2,152)
Other changes, net	1,198	—
Change in net assets with donor restrictions	4,355	544
Change in net assets	116,404	120,263
Net assets at beginning of year	1,647,123	1,526,860
Net assets at end of year	$ 1,763,527	1,647,123

See accompanying notes to consolidated financial statements.

CENTRACARE HEALTH SYSTEM

Consolidated Statements of Cash Flows

Years ended June 30, 2024 and 2023

(Dollars in thousands)

		2024	2023
Cash flows from operating activities:			
Change in net assets	$	116,404	120,263
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		80,691	83,949
Gain (loss) on sale of divestiture, net of cash		47,742	(5,520)
Cash proceeds from divestiture		1,570	13,182
Contributed net assets of affiliates		—	(14,548)
Adjustment to the funded status of the pension plan		(6,640)	(6,153)
Change in fair value of interest rate swaps, net		(2,868)	(9,127)
(Gain) loss from disposition of property and equipment		(332)	(98)
Capital equipment contributions		(1,897)	—
Assets whose use is limited, including net realized and unrealized gains and losses		(80,838)	(56,895)
Restricted contributions		(3,512)	(2,696)
Changes in assets and liabilities, net of acquisitions and affiliations:			
Accounts receivable from patients and residents		(13,188)	3,274
Other current assets		14,102	4,956
Accounts payable and other current liabilities		4,996	(59,210)
Other long-term assets and liabilities		(8,536)	5,163
Net cash provided by operating activities		147,694	76,540
Cash flows from investing activities:			
Purchases of property and equipment, net		(79,575)	(83,016)
Purchases of assets whose use is limited		(269,749)	(125,862)
Sales of assets whose use is limited		220,901	98,401
Net cash from affiliations		—	7,024
Cash paid for investment in joint venture		(1,794)	—
Net cash used in investing activities		(130,217)	(103,453)
Cash flows from financing activities:			
Proceeds from long-term debt		—	7,446
Principal payments on long-term debt and finance leases		(18,809)	(27,234)
Restricted contributions		3,512	2,696
Net cash used in provided by financing activities		(15,297)	(17,092)
Net (decrease) increase in cash, cash equivalents and restricted cash		2,180	(44,005)
Restricted cash at beginning of year		52,427	55,951
Cash, cash equivalents at beginning of year		132,791	173,272
Net cash, cash equivalents and restricted cash at beginning of year		185,218	229,223
Restricted cash at end of year		51,471	52,427
Cash, cash equivalents at end of year		135,927	132,791
Net cash, cash equivalents and restricted cash at end of year	$	187,398	185,218
Supplemental disclosures of cash flow information:			
Interest paid on long-term debt, leases and swap instruments	$	22,138	23,405

See accompanying notes to consolidated financial statements.

(1) Organization and Mission

CentraCare Health System's (the System) roots go back to 1886 when St. Cloud Hospital was built to serve the health care needs of people living in Central Minnesota. The System was organized in 1995 for the purpose of creating an integrated, multiorganizational health care system. The System consists of nine hospitals located in St. Cloud, Willmar, Monticello, Long Prairie, Melrose, Paynesville, Redwood Falls, Benson, and Sauk Centre. The System also operates over 30 clinics, and one long-term care facility.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The System is a non-profit corporation whose consolidated financial statements include the accounts of the System and its wholly or majority-controlled affiliates and wholly or majority-owned subsidiaries, which include both tax-exempt and taxable entities. All significant intercompany balances and transactions have been eliminated in consolidation.

The System includes the Members of the Obligated Group (CentraCare Health System, St. Cloud Hospital, CentraCare – Rice Memorial Hospital, CentraCare – Redwood, CCH – Melrose, CCH – Long Prairie, CCH – Sauk Centre, CCH – Monticello, CCH – Paynesville, CentraCare Clinic Southwest, LLC, and Affiliated Community Medical Center, LTD) as well as other affiliated entities. St. Cloud Hospital is the largest operating entity in both the Obligated Group and the System. As of June 30, 2024, the Members of the Obligated Group represent all of the System's net assets without donor restrictions and 85% of the System's consolidated patient service revenue. As of June 30, 2023, the Members of the Obligated Group constituted approximately 95% of the net assets without donor restriction of the consolidated total, and 85% of the System's consolidated patient service revenue, respectively.

For branding and marketing purposes, CentraCare Health System does business as CentraCare or CentraCare Health. The legal names of the entities all remain the same.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include highly liquid, undesignated investments purchased with a maturity at date of purchase of three months or less. The System has cash balances at financial institutions that may exceed federal depository insurance limits. To date, the System has not experienced any losses on such accounts. Restricted cash and cash equivalents include amounts described above that are included within assets whose use is limited.

(Continued)

(d) Assets Whose Use is Limited

Assets whose use is limited include investments held by trustees under indenture agreements for construction and debt service payments, investments held by trustees in conjunction with certain trust and escrow agreements, and long-term investments. Current portion of funds held by trustees under bond indentures represents funds to be used to liquidate the related current liabilities held as of the end of the reporting period.

Investments in marketable equity and debt securities are carried at fair value and are classified as trading investments. Investment securities are exposed to various risks, such as interest rate, credit and overall market volatility.

The System invests in alternative investment funds that hold interests in real estate, diversified hedge funds, private equity, and venture capital funds. Investments in the funds are stated at fair value using the practical expedient based on net asset values (NAVs) as reported in the funds' audited financial statements, adjusted by management for additional investments, distributions received, and unaudited interim market performance since the fund audit date, as provided by the fund.

Certain interest earned on funds held by the bond trustee is reported as other operating revenue because the interest expense on the related bonds is reported as an operating expense. All other investment returns, including change in unrealized gains and losses on trading investments, are reported as nonoperating gains (losses).

Realized gains and losses are included in nonoperating gains (losses) and are determined using the specific-identification method.

(e) Inventories and Supplies

Inventories consist of medical drugs and supplies and are recorded at the lower of cost, determined primarily on an average-cost basis, or net realizable value. Supplies are consumed as part of providing patient care.

(f) Derivative Instruments

The System uses certain derivatives to manage identified risk exposures but not for speculative purposes. Accounting treatment for derivative and hedging activities is in accordance with ASC Topic 815, *Derivatives and Hedging*. Under this guidance, swap instruments are recognized as either assets or liabilities in the consolidated balance sheet and are measured at fair value.

The System's derivative instruments do not meet the criteria to qualify for hedge accounting treatment. As such, changes in the fair value of interest rate swaps, together with the related difference between interest received and interest paid, are recorded as nonoperating gains and losses.

Derivative transactions contain credit risk in the event the parties are unable to meet the terms of the contract, which is generally limited to the fair value due from counterparties on outstanding contracts. At June 30, 2024 and 2023, the System's swap counterparty had a Standard & Poor's credit rating of A-.

(Dollars in thousands)

(g) Property, Plant and Equipment

Property, plant and equipment are recorded at cost, if purchased, or at fair market value on the date received, if donated or acquired through an acquisition or affiliation, less accumulated depreciation and amortization.

Major renewals and improvements are capitalized to the property and equipment accounts and depreciated accordingly. Replacements, maintenance, and repairs that do not improve or extend the lives of the assets are expensed as incurred. When items are disposed of, the cost and accumulated depreciation and amortization are eliminated from the accounts, and any gain or loss is recognized in operations at that time. The System depreciates property and equipment using the straight-line method. The estimated useful life is based on guidance provided by the American Hospital Association.

The System periodically assesses the recoverability of long-lived assets (including property, plant, and equipment) when indications of potential impairment, based on estimated, undiscounted future cash flows, exist. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining whether there is an impairment of an asset. No impairments were recorded in 2024 or 2023.

The following useful lives are used in computing depreciation:

Land improvements	5-25 years
Buildings	5-40 years
Building additions and improvements	10-20 years
Equipment	2-15 years

(h) Goodwill and Other Intangible Assets

Goodwill represents the excess of consideration paid over the fair value of net assets of businesses acquired. Goodwill acquired in business combinations and determined to have indefinite useful lives are not amortized. The System follows Accounting Standards Update (ASU) No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* After adoption of this standard, the amount of a goodwill impairment loss is measured as the excess of the carrying amount of the reporting unit over its fair value. The System reviews goodwill for impairment at least annually, or more frequently if circumstances indicate impairment may have occurred. If an impairment exists, an impairment loss is recorded for the difference between carrying value and the fair value of the reporting unit. For the years ended June 30, 2024 and 2023, no goodwill was acquired or divested. The qualitative analysis performed during the years ended June 30, 2024 and 2023, resulted in no circumstances which would indicate impairment had occurred.

(i) Long-term Debt and Deferred Debt Acquisition Costs

Discounts and premiums on bonds, which are recorded as a reduction or addition, respectively, of long-term debt, are amortized over the life of the related indebtedness using the straight-line method. Debt issuance costs are amortized over the life of the related indebtedness using the effective-interest method.

(j) Leases

The System determines whether an arrangement is a lease at inception. Operating leases are included in operating leased assets, other current liabilities, and other liabilities in the consolidated balance sheets. Finance leases are included in property and equipment, current maturities of long-term debt and long-term debt in the consolidated balance sheets.

Operating leased assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. Operating leased assets and liabilities are recognized at the commencement date, based on the present value of lease payments over the lease term. When a lease does not provide an implicit rate, the System uses an incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The implicit rate is used when readily determinable. The operating leased asset also includes any lease payments made and excludes lease incentives. The lease term may include options to extend or terminate the lease when it is reasonably certain the System will exercise the option. Operating fixed lease expense and finance lease depreciation expense are recognized on a straight-line basis over the lease term.

The System defines a short-term lease as any lease arrangement with a lease term of 12 months or less that does not include an option to purchase the underlying asset. Short-term lease payments are recognized as expense on a straight-line basis over the lease term and variable lease payments in the period in which the obligation is incurred.

The System has lease arrangements with lease and non-lease components, which are generally accounted for separately, except the System has elected the practical expedient to not separate non-lease components for real estate leases. Additionally, for certain equipment leases, the System applies a portfolio approach to effectively account for the assets and liabilities.

(k) Net Assets

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

(i) Net Assets Without Donor Restrictions

Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the System. These net assets may be used at the discretion of the System's Board of Directors and management. Net assets without donor restrictions are used to account for all transactions related to patient care and other operating activities. Net assets without donor restrictions also include assets whose use is limited through designation by the Board of Directors and requirements of bond indentures.

(ii) Net Assets with Donor Restrictions

Net assets with donor restrictions are net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the System or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor-restricted net assets that are temporary in nature are primarily composed of amounts restricted for building and other construction projects, bond reserves and a beneficial interest in a related foundation.

Donor-restricted net assets that are perpetual in nature are primarily composed of amounts received from the Cushman A. Rice Estate for the purpose of charitable patient care at Rice Memorial Hospital and charitable fund balances with the CentraCare Foundation.

(l) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises and indications of intentions to give are reported at fair value at the date the conditions are met. Receipts of unconditional promises to give with payments due in future periods are reported as net assets with donor restrictions, unless explicit donor stipulations or circumstances surrounding the receipt of a promise make clear that the donor intended it to be used to support activities of the current period. When a timing restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as a change in net assets without donor restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are included in nonoperating gains in the accompanying consolidated financial statements. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be held in perpetuity.

(m) Patient and Resident Service Revenue and Patient and Resident Accounts Receivable

The System reports patient and resident service revenue at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients and third-party payors (including Medicare, Medicaid, Blue Cross Commercial and other third-party payors). Certain reimbursement arrangements include variable consideration for amounts subject to retroactive audit and adjustment. Differences between amounts originally recorded and finally settled are included in operations in the year in which the differences are known. Revenue is recognized as performance obligations are satisfied. See Note 12 for additional information.

(n) Other Operating Revenue

Other operating revenue includes license fees and other fees related to other organizations’ use of the System’s electronic medical records system, food sales to employees and visitors, grant revenue from various sources, rental income for both commercial building and senior living facilities, retail pharmacy and ancillary sales and other miscellaneous revenue. Revenue for food, retail pharmacy and ancillary sales is recognized at the point of sale to the customer. Revenue related to the System’s electronic medical records system and rental income is recognized monthly based on usage and occupancy, respectively. Grant revenue is recognized over the life of the respective grant terms.

(o) Consolidated Statement of Operations and Changes in Net Assets

The consolidated statement of operations and changes in net assets has been separated into operating and nonoperating activities. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are recorded as operating activities. Transactions incidental to the provision of healthcare services are classified as nonoperating activities, and include investment income, realized and unrealized investment gains and losses, gains and losses on interest rate swaps, loss on debt refinancing, and contributions with donor restrictions of the Foundation. The results of operating and nonoperating activities are included in excess of revenue and gains over expenses and losses.

Contributions of property and equipment, changes and adjustments in the System's defined benefit plans, and net assets released from restrictions are presented as other changes in net assets without donor restrictions and excluded from excess of revenue and gains over expenses and losses.

(p) Business Combinations

The fair values of the assets acquired and the liabilities assumed represent the System's estimate of fair values at the acquisition or affiliation date. The System determines fair value through a combination of methods, which include outside valuations and appraisals, internal rate of return calculations, discounted cash flow models, and consideration of market conditions. Transaction and integration costs associated with business combinations are expensed as incurred. The results of the acquisitions or affiliations are included in the accompanying consolidated statements of operations and changes in net assets from the respective acquisition dates forward. See Note 15.

(3) Fair Value Measurements

The Fair Value Measurements and Disclosures of the Accounting Standard Codification Topic 820 establishes a framework for measuring fair value. The framework consists of a three-level valuation 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 are defined as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

(Dollars in thousands)

The following table presents the financial instruments carried at fair value as of June 30, 2024, by investment classification, analyzed by the fair value hierarchy:

	2024			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 135,927	—	—	135,927
Assets whose use is limited:				
Cash and cash equivalents	51,471	—	—	51,471
U.S. Treasury debt securities	—	1,057	—	1,057
Corporate debt securities	—	671	105	776
Fixed-income mutual funds	315,807	—	—	315,807
Equity mutual funds	653,276	—	—	653,276
Equity securities	2,796	—	—	2,796
Alternative investments at NAV*				197,402
Total assets whose use is limited	1,023,350	1,728	105	1,222,585
Total assets	$ 1,159,277	1,728	105	1,358,512
Liabilities:				
Interest rate swap instruments	$ —	8,689	—	8,689

* Investments are measured at net asset value and included for reconciliation purposes

(Dollars in thousands)

The following table presents the financial instruments carried at fair value as of June 30, 2023, by investment classification, analyzed by the fair value hierarchy.

		2023			
		Level 1	**Level 2**	**Level 3**	**Total**
Assets:					
Cash and cash equivalents	$	132,791	—	—	132,791
Assets whose use is limited:					
Cash and cash equivalents		52,427	—	—	52,427
Certificates of deposit		—	16	—	16
U.S. Treasury debt securities		—	633	—	633
Corporate debt securities		—	812	105	917
Fixed-income mutual funds		217,472	—	—	217,472
Equity mutual funds		648,557	—	—	648,557
Equity securities		2,537	—	—	2,537
Alternative investments at NAV*					171,279
Total assets whose use is limited		920,993	1,461	105	1,093,838
Total assets	$	1,053,784	1,461	105	1,226,629
Liabilities:					
Interest rate swap instruments	$	—	11,557	—	11,557

* Investments are measured at net asset value and included for reconciliation purposes

The following is a description of the System’s valuation methodologies for assets and liabilities measured at fair value:

Fair values for Level 1 securities are based upon quoted market prices.

Fair values for Level 2 assets are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers.

Fair values for Level 2 liabilities are based primarily on a discounted cash flow method. The valuations also reflect a credit spread adjustment to the SOFR discount curve to reflect the credit value adjustment for “nonperformance” risk. The credit spread adjustment is derived from other comparably rated entities’ bonds priced in the market.

Fair values for Level 3 securities are based on nonbinding broker estimates of midmarket pricing information. Fair value of Level 3 securities is not significant as of June 30, 2024 and 2023.

(Dollars in thousands)

Investments include alternative investments and commingled funds that are measured based on the practical expedient being net asset value, based on the net asset value of the fund as provided for in the audited consolidated financial statements and other fund reporting, as adjusted by management, where appropriate. These amounts are included in the totals in the table to permit reconciliation of assets whose use is limited in the fair value hierarchy table to the amounts presented in the consolidated balance sheets.

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

(4) Cash, Cash Equivalents, and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows:

		2024	2023
Cash and cash equivalents	$	135,927	132,791
Restricted cash included in assets limited as to use within:			
Current portion of funds held by trustees under bond indentures		—	18
Funds held by trustee under trust and escrow agreements		245	244
Funds held by trustee under bond indentures, net of current portion		26,575	28,007
Long-term investments		24,651	24,158
	$	187,398	185,218

(5) Liquidity and Availability of Resources

The System's financial assets available within one year of the consolidated balance sheets as of June 30, for general expenditure are as follows:

		2024	2023
Cash and cash equivalents	$	135,927	132,791
Patients and residents – accounts receivable		256,433	243,245
Long-term investments		1,191,262	1,061,611
Less financial assets not available for use within one year		(93,516)	(77,861)
Total financial assets and liquidity resources available within one year for general expenditure	$	1,490,106	1,359,786

(Dollars in thousands)

The System holds cash balances that optimize predictable cash flows. To efficiently manage liquidity and capital, the System continually determines the necessary amount of cash and cash equivalents to hold in cash and cash equivalents to meet operational needs and allocated the excess to a separate long-term investment account that is expected to generate higher yielding returns while still maintaining a high degree of liquidity. In relation to the reserves on assets whose is limited, approximately 83% of the funds can be liquidated within one month or less. In the event of an unanticipated liquidity need, the System could also draw upon an additional $50,000 of available line of credit.

(6) Assets Whose Use is Limited

The carrying value of the System’s investment portfolio and classification in the consolidated balance sheets at June 30 are summarized as follows:

		2024	2023
Cash and cash equivalents	$	51,471	52,427
Certificates of deposit		—	16
U.S. Treasury debt securities		1,057	633
Corporate debt securities		776	917
Fixed-income mutual funds		315,807	217,472
Equity mutual funds		653,276	648,557
Marketable equity securities		2,796	2,537
Alternative investments		197,402	171,279
Total asset whose use is limited	$	1,222,585	1,093,838

		2024	2023
Current portion of funds held by trustees under bond indentures	$	—	18
Funds held by trustee under trust and escrow agreements		4,748	4,202
Funds held by trustee under bond indentures, net of current portion		26,575	28,007
Long-term investments		1,191,262	1,061,611
	$	1,222,585	1,093,838

(Dollars in thousands)

Investment income and gains and their classification in the consolidated statements of operations and changes in net assets for the years ended June 30 are summarized as follows:

		2024	2023
Interest and dividends income	$	47,963	32,568
Net realized gains		2,458	22,161
Net change in unrealized gains (losses)		77,424	37,465
Investment income and gains, net	$	127,845	92,194

		2024	2023
Other operating revenue	$	2,445	1,395
Nonoperating gains (losses), net		125,400	90,799
Investment income and gains, net	$	127,845	92,194

The following tables disclose the fair value and redemption frequency for those alternative investments whose fair value is estimated using the NAV per share as of June 30:

		2024 – Fair value estimated using net asset value per share			
		Fair value	**Unfunded commitment**	**Redemption frequency**	**Redemption notice period**
Hedge fund (A)	$	67,444	—	Quarterly	65 days
Private equity (B)		58,456	81,175	More than 1 year	NA
Private equity (C)		16,984	5,142	More than 1 year	NA
Real estate partnership (D)		36,317	—	Quarterly	60 days
Venture capital (E)		18,201	4,474	More than 1 year	NA
	$	197,402	90,791		

		2023 – Fair value estimated using net asset value per share			
		Fair value	**Unfunded commitment**	**Redemption frequency**	**Redemption notice period**
Hedge fund (A)	$	52,194	—	Quarterly	65 days
Private equity (B)		48,426	93,190	More than 1 year	NA
Private equity (C)		13,898	7,229	More than 1 year	NA
Real estate partnership (D)		41,224	—	Quarterly	60 days
Venture capital (E)		15,537	6,594	More than 1 year	NA
	$	171,279	107,013		

(Dollars in thousands)

(A) The fund seeks high total returns by investing in a diversified portfolio composed of collateralized loan obligations and other structured credit investments backed primarily by bank loans.

(B) The funds have various vintage years and seek global exposure to the private asset subclasses of venture capital, buyouts, debt, real estate and real assets through diversified fund of funds.

(C) The fund seeks strong capital appreciation focused on investing in majority buyouts of established, profitable, growing companies headquartered in Minnesota or adjacent geographies.

(D) The funds actively manage core portfolios of primarily equity real estate investments in the United States.

(E) The funds generate investment returns by investing in venture and growth equity investments in health care information technology and services, and medical devices and diagnostics that fit within strategic priorities of the limited partner health systems.

(7) Property and Equipment

Property and equipment at June 30 consisted of the following:

	2024	**2023**
Land	$ 38,948	41,727
Buildings	1,154,683	1,208,728
Equipment	603,361	589,531
	1,796,992	1,839,986
Accumulated depreciation and amortization	(1,015,954)	(1,005,796)
	$ 781,038	834,190

Construction in progress at June 30, 2024 primarily relates to facility expansion, facility renovation and equipment at the hospitals and clinic campuses. Contractually committed costs remaining for expansion and renovation projects totaled approximately $44,715 at June 30, 2024. Depreciation expenses were $80,439 and $83,696 for the years ended June 30, 2024 and 2023, respectively.

(8) Leases

Operating and finance leases are presented in accordance with Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The System leases facilities and equipment under lease arrangements, which include both monthly and long-term arrangements.

(Dollars in thousands)

Assets and liabilities arising from leases as of June 30 are as follows:

	Classification		2024	2023
Assets:				
Operating leased assets	Operating leased assets	$	17,076	23,326
Finance leased assets	Property and equipment, net		8,637	7,530
Total leased assets		$	25,713	30,856

	Classification		2024	2023
Liabilities:				
Current:				
Operating	Other current liabilities	$	6,206	7,135
Finance	Current maturities of long-term debt		1,496	729
Noncurrent:				
Operating	Other liabilities		10,870	16,190
Finance	Long-term debt		6,825	6,477
Total leased liabilities		$	25,397	30,531

Finance lease assets are recorded net of accumulated amortization of $2,528 and $8,202 as of June 30, 2024 and 2023, respectively.

Lease expense for the year ended June 30 was as follows:

		2024	2023
Operating lease expense	$	7,447	8,069
Finance lease expense, includes amortization and interest		1,734	2,737
	$	9,181	10,806

(Continued)

(Dollars in thousands)

The maturity of lease liabilities at June 30, 2024, was as follows:

		Operating leases	Financing leases	Total
Undiscounted cash flows due within:				
2025	$	6,522	1,746	8,268
2026		5,445	1,454	6,899
2027		2,857	1,341	4,198
2028		887	1,230	2,117
2029		394	853	1,247
Thereafter		1,794	2,721	4,515
Minimum lease payments		17,899	9,345	27,244
Less Interest		(823)	(1,022)	(1,845)
Net minimum lease payments	$	17,076	8,323	25,399

Other disclosures as of or for the years ended June 30, 2024 and 2023:

		2024		2023	
		Operating	Financing	Operating	Financing
Operating cash flows for leases	$	7,602	333	8,076	127
Financing cash flows for leases		—	1,637	—	3,068
Lease assets obtained in exchange for new lease liabilities		1,013	4,057	—	7,112
Weighted-average terms (years)		4.0	37.3	4.5	44.9
Weighted-average discount rate		2.4 %	3.2 %	2.3 %	3.2 %

(Dollars in thousands)

(9) Long-Term Debt

Long-term debt at June 30 is summarized as follows:

		2024	2023
Health Care Revenue Bonds, Series 2021A, maturing through 2033, at annual fixed interest rate of 1.61%	$	20,905	23,710
Health Care Revenue Bonds, Series 2019, maturing through 2055, at annual fixed interest rates from 4.0% to 5.0% (net of unamortized premium of $10,919 in 2024 and $11,359 in 2023)		140,919	141,359
Health Care Revenue Bonds, Series 2016A, maturing through 2046, at annual fixed interest rates from 3.0% to 5.0% (inclusive of unamortized premium of $17,455 in 2024 and $18,509 in 2023)		203,455	204,509
Term loan agreement, principal payments through 2027, at an annual fixed interest rates of 3.3% to 4.0%		33,825	36,100
Health Care Revenue Refunding Bonds, Series 2014B, maturing through 2024, at annual fixed interest rate of 5.0% (inclusive of unamortized premium of $0 in 2024 and $737 in 2023)		—	9,967
Health Care Facilities Revenue Bonds, Series 2014A, maturing through 2025, variable-rate interest at an average annual interest rate of 4.81% in 2024 and 3.53% in 2023		113,310	114,310
Affiliated debt obligations, maturing through 2034, currently at annual interest rates from 1.0% to 3.3%		5,310	5,775
Other notes and loan obligations, maturing through 2027, at annual interest rates from 3.1% to 5.3%		12,652	13,965
Finance leases, due through fiscal year 2034		8,323	8,092
Debt issuance costs		(2,548)	(2,736)
Total debt		536,151	555,051
Current portion of long-term debt included in current liabilities		(121,748)	(18,075)
Total long-term debt	$	414,404	536,976

The City of St. Cloud, Minnesota, has issued the Obligated Group Revenue Bonds on behalf of the System Obligated Group (Obligated Group) which is subject to the terms and conditions of the Master Trust Indenture dated December 1985, as amended between the System and U.S. Bank Trust Company. The Obligated Group includes all hospitals and certain physician clinics.

The affiliated debt obligations are interest and principal payments assumed through lease and affiliation agreements with the entity. The System has entered guarantee agreements on the existing lease agreement for CentraCare – Sauk Centre. The guarantee and respective values are limited to the payment of all rent and other sums payable under the terms of the lease. The System has made no payments under the guarantee, and expectation of future payment is deemed remote. See footnote 11 for further details.

(Dollars in thousands)

The System secured a $50,000 line of credit in fiscal year 2020 in the event of unanticipated liquidity needs. At June 30, 2024 and 2023, the full line of credit of $50,000 was available for short-term borrowing. This line of credit has an annual term and expires in April 2025. Any outstanding principal and interest are due at the line of credit's expiration date.

Scheduled principal maturities on long-term debt, for each of the next five years and thereafter are as follows:

		Long term debt
Years ending June 30:		
2025	$	121,748
2026		19,686
2027		46,808
2028		18,185
2029		18,405
Thereafter		311,319
	$	536,151

(10) Interest Rate Swap Instruments

The System employs interest rate–related derivative instruments to manage its exposure to interest cost on its variable-rate debt instruments and its exposure to fair value changes on its fixed-rate debt due to changes in interest rates. The System does not enter into derivative instruments for any purpose other than risk management purposes. The derivative financial instruments expose the System to counterparty credit risk and market risk. Counterparty credit risk is the failure of the counterparty to perform under the terms of the derivative contracts.

The following is a summary of the outstanding positions under interest rate swap agreements at June 30, 2024:

Instrument type	Original bond series		Notional amount	Maturity date	Interest rate paid	Interest rate received
Interest rate swap	2008	$	120,000	May 1, 2042	3.184 %	68% of 1-month SOFR + 0.0778%

The 1993 Swap Instrument matured on October 1, 2023

The derivative instruments identified in the table above are not integrated with the underlying debt and, as such, are not hedge transactions as defined by accounting standards.

(Dollars in thousands)

The fair value of derivative instruments on a gross basis is as follows at June 30:

	Consolidated balance sheet location		2024	2023
Derivatives		$	(8,869)	(11,737)
Collateral posted for derivatives			180	180
	Interest rate swap instruments – liability	$	(8,689)	(11,557)

The System's derivative instruments include certain collateralization requirements based on the market value of these transactions. The amount required for collateral is determined daily based on the current market value of the derivative instruments and compared to the predetermined collateral threshold. The System offsets fair value amounts recognized for the derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) based on the terms of the master netting agreement with the counterparties.

The effect of derivative instruments on the consolidated statements of operations and changes in net assets is as follows:

Derivates not designated as hedging instruments	Location within consolidated statements of operations and changes in net assets		years ended June 30 Amount of loss on derivatives recognized in revenue and gains in excess (deficit) of expenses and losses (deficit)	
Realized gains (losses) on derivatives		$	655	(919)
Unrealized gains (losses) on derivatives			2,868	9,127
	Gains (losses) on interest rate swaps, net	$	3,523	8,208

When the fair value of the derivative contract is positive, the counterparty owes the System, which creates counterparty credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty and therefore does not possess counterparty credit risk. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of the System's derivative positions in the context of its total blended cost of capital.

(Continued)

(11) Commitments and Contingencies

At June 30, 2024, the System had capital commitments for construction and equipment projects of approximately $44,715 and capital commitments related to affiliation agreements of approximately $241. Capital commitments are expected to be funded by a combination of project funds remaining and operating cash flows. Capital commitments related to affiliation agreements are incurred over a 10-year period, continuing through 2029.

The System is insured with external carriers for professional liability claims on a claims-made basis and for general liability and workers' compensation on an occurrence basis. Under the professional liability and workers' compensation policies, the System has self-insured deductible amounts. If claims-made policies presently in force are not renewed or replaced with equivalent insurance, claims asserted after the end of the policy term will be uninsured.

The System is self-insured for employee health claims with stop-loss coverage above certain limits. At June 30, 2024 and 2023, the System had estimated liability for claims incurred that have not yet been reported based on historical claims experience, which was $13,755 and $10,604, respectively. These benefits are reported as accrued salaries and employee benefits on the consolidated statements of operations and changes in net assets.

The System is a party to various legal proceedings and potential claims arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material adverse effect on the System's consolidated financial condition or operations.

Effective January 1, 2019, Carris Health executed a transfer agreement with the City of Redwood Falls to receive a transfer of the net assets and operations of the Redwood Area Hospital (RAH). Under the terms of the noncash affiliation of RAH, Carris Health now controls substantially all assets, liabilities and operations of RAH. The transfer agreement with the City of Redwood Falls includes a maximum $6,000 contingent consideration to be paid if cash generated from operations exceeds certain thresholds in years six through 10 following affiliation. As of June 30, 2024, the expectation of future payment to the City of Redwood Falls is deemed remote and a liability has not been recorded.

In January 2024, the System entered a joint venture with Astera Health to open a cancer center in Wadena, MN. As part of the joint venture, the System is acting as guarantor of the debt financing obtained by Astera Health (Series 2024A and 2024B Revenue Bonds) for the construction and equipping of the Central Minnesota Cancer Center, LLC, along with capitalized interest and issuance costs related to the bonds. The Series 2024A tax-exempt bonds ($19,960) have a final maturity of December 1, 2045; the Series 2024B taxable bonds ($515) have a final maturity of December 1, 2029. In the event of default, the System will provide a guarantee for the payment obligations related to the debt financing. This guaranty is labeled as an unsecured general obligation, and therefore no liability has been included on the System's consolidated balance sheet. The probability of the System's payment responsibility as guarantor being realized is low. The full amount at risk of repayment is $34,629 ($20,475 principal); the System has added $4,095, or 20% of the principal related to this guarantee, to the System's debt covenant calculations as required under the Master Trust Indenture.

(12) Patient and Resident Service Revenue and Contractual Agreements with Third-Party Payors

The System reports patient and resident service revenue at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient and resident care. Patient and resident service revenue includes amounts due from patients, residents, third-party payors (including health insurers and government programs) and others, as well as variable consideration for retroactive revenue adjustments due to settlement of audits. Generally, the System bills patients and third-party payors within days after services are provided or when the patient is discharged. Long-term care residents and senior housing are billed monthly based on the number of days the resident was in the facility.

A summary of the payment arrangements with major third-party payors follows:

(a) Medicare

Inpatient acute care services rendered at the System to Medicare program beneficiaries and defined capital costs related to Medicare beneficiaries are paid at prospectively determined rates per discharge, which vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services and defined capital costs related to Medicare beneficiaries are paid prospectively, while other outpatient services payments are based on fee schedules.

Certain hospital, clinic and nursing home operations are reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Medicare services rendered to clinic patients are paid at the Medicare Part B physician fee schedule rate.

(b) Medicaid

Inpatient services rendered to Medicaid program beneficiaries who are not covered by Medicaid managed care are reimbursed at a prospectively determined per case or per diem rate. Outpatient services are reimbursed based on a stated fee schedule.

(c) Managed Care Payors

Payment arrangements are established under negotiated contracts and include reimbursement based on prospectively determined rates per discharge and daily rates, discounted charges, or per diem payments.

Patient and resident service revenue is recognized as performance obligations are satisfied with performance and obligations determined based on the nature of the services provided. Patient service revenue for performance obligations satisfied over time are generally related to inpatient acute care services and are recognized based on estimated expected payments. The System believes this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. The System measures the performance obligation from the patient's admission into the hospital to the point of discharge. Outpatient services are performance obligations satisfied at a point in time, and revenue is recognized when goods or services are provided, and the System does not believe it is required to provide additional goods or services. Resident services are performance obligations satisfied over time and are recognized based on expected payment on a monthly basis.

As substantially all its performance obligations relate to a contract period of less than one year, the System has elected to apply the optional exemption provided in Accounting Standard Codification Subtopic 606 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. Unsatisfied and partially unsatisfied performance obligations relate primarily to inpatient acute care service patients who remain admitted as of the end of the reporting period. These patients are generally discharged within days or weeks of the end of the reporting period.

The System uses a portfolio approach to account for categories of patient contracts as a collective group, consisting of major payor classes for both inpatient and outpatient revenue. Based on historical collection trends and other analysis, the System believes that revenue recognized by the portfolio approach approximates revenue that would have been recognized if an individual contract approach was used.

The System's initial estimate of the transaction price is determined by reducing the gross patient charges by various elements of variable consideration, including third-party payor contractual adjustments, discounts, implicit price concessions, and other reductions. The System determines the transaction price associated with services provided to patients who have third-party payor coverage based on reimbursement terms as outlined in the contractual agreements, the System's discount policies, and historical experience. Patients who are covered by third-party payors are responsible for their related deductibles and coinsurance. For patients with deductibles and coinsurance, or uninsured and underinsured patients who do not apply or do not meet the qualifications for charity care, the System determines the transaction price associated with services rendered by reducing total gross patient charges by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on the System's historical collection experience for applicable patient portfolios. The System follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts, as determined by the System.

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to patient service revenue in the period of the change. Portfolio collection estimates are updated monthly based on collection trends.

Settlements with third-party payors for total cost of care payor contracts, cost report filings, and retroactive adjustments due to ongoing and future contract provisions or audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the contract activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in the future periods as adjustments become known, or as years are settled or are no longer subject to audit. Adjustments to revenue related to prior periods increased patient and resident service revenue by approximately $5,554 and $9,259 for the years ended June 30, 2024 and 2023, respectively.

(Dollars in thousands)

The System has elected the practical expedient allowed under ASC Subtopic 606 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the System does, in certain circumstances, 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 contract.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. The System believes that it complies with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on its consolidated financial statements.

The composition of patient and resident service revenue for the years ended June 30 based on lines of business is summarized below:

		2024	2023
Hospital services	$	1,393,212	1,293,244
Physician services		400,866	379,479
Senior services		34,722	60,497
Other		78,062	93,633
	$	1,906,862	1,826,853

(Dollars in thousands)

Patient and resident service revenue by payor for the years ended June 30 was as follows:

	2024	2023
Medicare	38 %	36 %
Medicaid	12	14
Blue Cross Commercial	17	16
Other Commercial	25	25
Self-pay and other	8	9
	100 %	100 %

The System grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from patients, residents and other third-party payors was as follows at June 30:

	2024	2023
Medicare	31 %	28 %
Medicaid	8	10
Blue Cross Commercial	12	11
Other Commercial	21	25
Self-pay and other	28	26
	100 %	100 %

(13) Charity Care

The System provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Since the System does not pursue collection of amounts due from patients who have been determined to qualify for its charity care program, these amounts are excluded from patient and resident service revenue.

The estimated cost of charity care provided was approximately $3,617 and $3,579 for the years ended June 30, 2024 and 2023, respectively. The cost of providing charity care is estimated by applying an overall cost-to-charge ratio to the charity charges incurred.

(Dollars in thousands)

(14) Functional Expenses

The System provides general health care services to residents within its geographic location. Certain balances were revised to align with the current year presentation. Expenses related to providing these services included in the consolidated statements of operations and changes in net assets for the years ended June 30 are as follows:

	Health Care Services	General and administrative	Total
2024:			
Salaries and employee benefits	$ 970,618	259,868	1,230,486
Supplies and other	516,799	122,530	639,329
Interest	—	19,586	19,586
Depreciation and amortization	35,168	45,523	80,691
	$ 1,522,585	447,507	1,970,092

	Health Care Services	General and administrative	Total
2023:			
Salaries and employee benefits	$ 968,005	254,423	1,222,428
Supplies and other	477,268	108,403	585,671
Interest	—	19,898	19,898
Depreciation and amortization	34,063	49,886	83,949
	$ 1,479,336	432,610	1,911,946

(15) Acquisitions, Affiliations and Divestitures

On October 3, 2022, the System sold its durable medical equipment entity, Rice Home Medical, to CHM Central, LLC. The System realized a $1,960 gain on sale, included in other operating income.

On November 16 and November 27, 2022, the System sold skilled nursing and assisted living facilities located in Long Prairie to Premier Healthcare Management of Long Prairie. The System realized a $20 gain on sale, included in other operating income.

On January 1, 2023, the System acquired the net assets of Swift County Benson for no consideration. At the time of affiliation, Swift County Benson had assets and liabilities of $16,762 and $2,214, respectively, were added to the System’s consolidated balance sheets. Included in assets was cash of $7,024. Revenues and net operating income for the six months ended June 30, 2023 was $9,959 and $1,108, respectively. Revenues and net operating income for the year ended June 30, 2024 was $22,717 and $2,901, respectively.

(Continued)

On February 10, 2023, the System and the University of Minnesota Medical School announced a non- binding statement of interest to jointly develop and oversee a comprehensive rural health program including a Medical School campus in St Cloud. The academic affiliation agreement between the University and the System was approved by the University of Minnesota Board of Regents on October 13, 2023, with plans to open the CentraCare campus in fall of 2025.

On October 1, 2023, the System signed a management agreement with Meeker Memorial Hospital to provide comprehensive management services to facilitate effective and coordinated provision of health care services. This agreement includes the employment of key executive employees by the System.

In October 2023, the System signed a letter of intent with Astera Health to expand cancer services in the Wadena area. The newly formed joint venture, Central Minnesota Cancer Center, LLC, was formed in January 2024, and the construction project is estimated to be complete by spring of 2025. See Note 11 for additional information regarding the debt structure of this project.

In December 2023, the System sold the assisted living and skilled nursing facilities of St. Benedict's Senior Community, located in St. Cloud, Sartell, and Monticello. The System realized a $36,459 loss on sale, included in other operating income. The sale included assets of $42,824 and liabilities of $514, as well as the transfer of Foundation funds related to St. Benedict's Senior Community of $3,885 with a total purchase price of $5,850.

In January 2024, the System sold the skilled nursing facility located in Melrose. The System realized a $985 loss on sale, included in other operating income.

In February 2024, the System sold the assisted living and skilled nursing facilities located in Monticello. The System realized a $1,818 loss on sale, included in other operating income. The building and land associated with these operations will be leased until the real estate transaction with the City of Monticello is complete. In the interim, the real estate assets have been written down to net realizable value and classified as held for sale on the consolidated balance sheet.

In March 2024, the System sold the skilled nursing facility located in Willmar. The System realized a $8,480 loss on sale, included in other operating income. The building and land associated with these operations will be subleased from the System until a revised lease with the City of Willmar is complete and fee title passes directly to Cura from the City. In the interim, the real estate assets have been written down to net realizable value and classified as held for sale on the consolidated balance sheet.

(16) Retirement Plans

The System participates in a noncontributory defined benefit plan sponsored by the Sisters of the Order of Saint Benedict; the Hospital; and Saint Benedict's Senior Community, Health Care & Housing for Older Adults. In addition, the System sponsors a smaller defined benefit plan, which has been frozen since 2003.

The System's plans cover substantially all employees who attained age 21 and worked for at least one year with 1,000 hours or more of annual service prior to curtailment of the plans. Benefits are based on each employee's years of service and compensation.

(Dollars in thousands)

The System's funding policy is to contribute annually at least the amount necessary to prevent a deficiency in the accounts using a calculation of the normal cost plus a 10-year amortization of the unfunded actuarial accrued liability, with interest, to the end of the plan. The normal cost is the portion of the present value of benefits that is allocated to the current year.

The System's Finance and Audit Committee approves the investment policy and asset allocation of the pension plan. The Finance and Audit Committee's activities are supported by an independent investment manager. The investment policy covers responsibilities of the investment manager, investment objectives, asset allocation targets, and asset guidelines (including permissible and non-permissible holdings). The Finance and Audit Committee reviews asset allocations quarterly to determine if the current structure is appropriate and whether any changes are necessary.

The current target allocation and the actual asset allocation as of June 30 are as follows:

	Asset allocation target	2024	2023
Equity securities	53 %	53 %	53 %
Fixed-income securities	41	40	39
Real estate partnership	6	7	8
	100 %	100 %	100 %

The plans' investments in real estate partnerships are similar to those described in Notes 6 and 7.

The following is a summary of the change in projected benefit obligation and change in plan assets for the years ended June 30:

	2024	2023
Projected benefit obligation at beginning of year	$ 117,116	126,082
Interest cost	5,470	5,259
Benefits paid and settlement	(9,773)	(9,784)
Actuarial loss	(2,942)	(4,441)
Projected benefit obligation at end of year	109,871	117,116
Change in plan assets:		
Fair value of plan assets at beginning of year	93,462	96,114
Actual gain on plan assets	8,479	7,132
Benefits paid and settlement	(9,773)	(9,784)
Fair value of plan assets at end of year	92,168	93,462
Funded status of the plans (underfunded)	$ (17,703)	(23,654)

(Continued)

(Dollars in thousands)

The accumulated benefit obligation at June 30, 2024 and 2023, was $109,871 and $117,116, respectively.

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions during the years ended June 30 consist of the following:

		2024	2023
Actuarial loss (gain)	$	(4,458)	(4,070)
Amortization of prior service cost		287	287
Amortization of actuarial loss, net		(2,327)	(2,512)
	$	(6,498)	(6,295)

At June 30, 2024 and 2023, actuarial losses of $31,130 and $37,628, respectively, which have not been recognized in the net periodic pension (benefit) cost, are included in net assets without donor restrictions.

Actuarial losses (gains) included in net assets without donor restrictions and expected to be recognized in net periodic pension cost (benefit) during the year ending June 30, 2024, are $2,168 of estimated net loss and ($130) of unrecognized prior service credit. Unrecognized actuarial gains (losses) are amortized as a component of net periodic pension cost (benefit), only if the gains (losses) exceed 10% of the greater of the projected benefit obligation or the market-related value of plan assets.

Net periodic pension cost consisted of the following for the years ended June 30:

		2024	2023
Interest cost	$	5,470	5,259
Expected return on plan asset		(7,023)	(7,537)
Service cost		60	34
Amortization of unrecognized prior service cost		(287)	(287)
Amortization of unrecognized net actuarial loss		2,327	2,512
Net periodic pension cost (benefit)	$	547	(19)

Weighted-average assumptions for the years ended June 30 were as follows:

	2024	2023
Discount rate at beginning of year (used to determine net periodic benefit cost)	4.87 %	4.33 %
Discount rate at end of year (used to determind benefit plan obligation)	5.25	4.87
Expected long-term return on plan assets	7.20	7.20

(Dollars in thousands)

The overall weighted average return on plan assets is determined by applying management's judgment to the results of computer modeling, historical trends, and benchmarking data. During the year ending June 30, 2024, the System did not contribute to the plan.

The following benefits, which reflect expected future service, are expected to be paid:

	2024
Years ending June 30:	
2025	$ 9,660
2026	9,637
2027	9,330
2028	9,356
2029	9,266
Thereafter	42,170
	$ 89,419

The plan assets measured at fair value on a recurring basis were recorded using the fair value hierarchy and NAV at June 30, as follows:

	2024			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 1,883	—	—	1,883
Corporate debt securities	—	—	56	56
Fixed-income mutual funds	36,926	—	—	36,926
Equity Mutual Funds	48,760	—	—	48,760
Real Estate partnership at NAV*				4,543
Total Plan Assets	$ 87,569	—	56	92,168

* Investmensts are measured at net asset value and included only for reconciliation purposes

(Dollars in thousands)

The plan assets measured at fair value on a recurring basis were recorded using the fair value hierarchy and NAV at June 30, as follows:

	2023			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,922	—	—	1,922
Corporate debt securities	—	—	56	56
Fixed-income mutual funds	49,234	—	—	49,234
Equity Mutual Funds	36,836	—	—	36,836
Real Estate partnership at NAV*				5,414
Total Plan Assets	$ 87,992	—	56	93,462

* Investmensts are measured at net asset value and included only for reconciliation purposes

Fair value methodologies for Level 1, Level 2 and Level 3 investments are consistent with the inputs described in Note 7.

The System sponsors a defined contribution retirement plan that covers substantially all employees. Contributions are based on a percentage of eligible employees' salaries. In addition, the System sponsors a defined contribution savings plan, whereby employees can contribute a portion of their salaries as savings. Under this plan, beginning January 1, 2021, the System will match 50% of the initial 6% of contributions made by employees, up from a 50% match of the initial 3% of contributions made by employees prior to that date. Total amounts expensed for all defined contribution plans were $50,176 and $49,584 for the years ended June 30, 2024 and 2023, respectively.

(17) Subsequent Events

The System has evaluated events and transactions occurring subsequent to June 30, 2024, through September 5, 2024, the date of the consolidated financial statements and quarterly disclosure to the Trustee. During this period, there were no other subsequent events requiring recognition or disclosure in the consolidated financial statements.

SUPPLEMENTAL SCHEDULES

CENTRACARE HEALTH SYSTEM

Consolidating Balance Sheet Information

June 30, 2024

(Dollars in thousands)

Assets	Obligated Group*	Other CentraCare Health Entities*	CentraCare Health System
Current assets:			
Cash and cash equivalents	$ 112,764	23,163	135,927
Accounts receivable:			
Patients and residents	225,668	30,765	256,433
Other receivables	37,306	7,745	45,051
Inventories and supplies	31,532	4,372	35,904
Prepaid expenses and other	23,122	262	23,384
Current assets held for sale	1,794	—	1,794
Total current assets	432,186	66,307	498,493
Assets whose use is limited:			
Funds held by trustee under trust and escrow agreements	4,748	—	4,748
Funds held by trustee under bond indentures, net of current portion	26,575	—	26,575
Long-term investments	1,110,949	80,313	1,191,262
Assets whose use is limited, net of current portion	1,142,272	80,313	1,222,585
Property and equipment, net	760,222	20,816	781,038
Due (to) from affiliated organizations	188,752	(188,752)	—
Operating leased assets	13,490	3,586	17,076
Goodwill	53,238	4,631	57,869
Other assets	22,173	33,451	55,624
Total assets	$ 2,612,333	20,352	2,632,685
Liabilities and Net Assets			
Current liabilities:			
Current maturities of long-term debt	$ 120,806	942	121,748
Accounts payable	76,185	9,402	85,587
Third-party payor settlements	12,313	2,885	15,198
Accrued salaries and benefits	101,267	58,673	159,940
Other current liabilities	10,226	575	10,801
Total current liabilities	320,797	72,477	393,274
Long-term liabilities:			
Long-term debt	409,008	5,395	414,403
Interest rate swap instruments	8,689	—	8,689
Accrued pension liability	17,641	—	17,641
Other liabilities	30,855	4,296	35,151
Total long-term liabilities	466,193	9,691	475,884
Total liabilities	786,990	82,168	869,158
Net assets:			
Without donor restrictions	1,816,357	(73,912)	1,742,445
Without donor restrictions – noncontrolling interest	4,121	(62)	4,059
Total net assets without donor restrictions	1,820,478	(73,974)	1,746,504
Net assets with donor restrictions	4,865	12,158	17,023
Total net assets	1,825,343	(61,816)	1,763,527
Total liabilities and net assets	$ 2,612,333	20,352	2,632,685

* Includes eliminations

See accompanying independent auditors’ report.

CENTRACARE HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets Information

Year ended June 30, 2024

(Dollars in thousands)

	Obligated Group*	Other CentraCare Health Entities*	CentraCare Health System
Revenue:			
Patient and resident service revenue	$ 1,612,310	294,552	1,906,862
Other operating revenue	87,749	3,386	91,135
Total revenue	1,700,059	297,938	1,997,997
Expenses:			
Salaries and employee benefits	889,063	341,423	1,230,486
Supplies and other	602,756	36,573	639,329
Interest	19,311	275	19,586
Depreciation and amortization	77,066	3,625	80,691
Total expenses	1,588,196	381,896	1,970,092
Operating gain (losses) before divestures	111,863	(83,958)	27,905
Other operating gains (losses)			
Gains (losses) on sale of divestitures	(47,742)	—	(47,742)
Operating income (loss)	64,121	(83,958)	(19,837)
Nonoperating gains (losses):			
Investment gains (losses), net	116,465	8,935	125,400
Gains on interest rate swaps, net	3,523	—	3,523
Other changes, net	2,766	128	2,894
Total nonoperating gains (losses), net	122,754	9,063	131,817
Excess (deficit) of revenue and gains over expenses and losses	186,875	(74,895)	111,980
Less revenues in excess of expenses attributable to noncontrolling interest	(2,219)	(104)	(2,323)
Excess (deficit) of revenue and gains over expenses and losses attributable to CentraCare	184,656	(74,999)	109,657
Net assets without donor restrictions:			
Net assets released from restrictions	5	350	355
Adjustments to the funded status of the pension plan	6,640	—	6,640
Net transfers (to) from affiliated organizations	726	(726)	—
Other changes, net	5,676	(8,602)	(2,926)
Change in net assets without donor restrictions	197,703	(83,977)	113,726
Net assets without donor restrictions, noncontrolling interest:			
Revenue and gains in excess of expenses and losses	2,219	104	2,323
Distributions to noncontrolling interest	(4,000)	—	(4,000)
Change in net assets without donor restrictions, noncontrolling interest	(1,781)	104	(1,677)
Net assets with donor restrictions:			
Contributions	542	2,970	3,512
Net assets released from restrictions	(5)	(350)	(355)
Other changes, net	—	1,198	1,198
Change in net assets with donor restrictions	537	3,818	4,355
Change in net assets	196,459	(80,055)	116,404
Net assets at beginning of year	1,628,884	18,239	1,647,123
Net assets at end of year	$ 1,825,343	(61,816)	1,763,527

* Includes eliminations

See accompanying independent auditors' report.