

# **Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division**

Consolidated Financial Report  
June 30, 2023

## Contents

Independent auditor's report	1-2
Financial statements	
Consolidated balance sheets	3-4
Consolidated statements of operations and changes in net assets	5-6
Consolidated statements of cash flows	7-8
Notes to consolidated financial statements	9-32
Independent auditor's report on the supplementary information	33
Supplementary information	
Consolidating balance sheet	34-35
Consolidating statement of operations	36
SwedishAmerican Health System Corporation and Subsidiaries	
Consolidating balance sheet	37-38
Consolidating statement of operations	39

## **Independent Auditor's Report**

RSM US LLP

Board of Directors  
Regional Division, Inc.

### **Opinion**

We have audited the consolidated financial statements of Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division (the Corporation), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, 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 (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

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

*RSM VS LLP*

Madison, Wisconsin  
October 25, 2023

Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

Consolidated Balance Sheets

June 30, 2023 and 2022

(Dollars in Thousands)

	2023	2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 143,573	\$ 137,889
Patient accounts receivable	79,028	75,763
Amounts due from third-party payors	5,930	6,877
Inventories	11,677	12,103
Prepaid expenses and other assets	10,895	13,402
<b>Total current assets</b>	<b>251,103</b>	<b>246,034</b>
Investments and assets limited as to use:		
Investments internally designated for self-insurance fund	10,874	11,142
Investments internally designated for deferred compensation agreements	4,961	4,131
Beneficial interest in investment pool	337,886	313,533
<b>Total investments and assets limited as to use</b>	<b>353,721</b>	<b>328,806</b>
Other assets:		
Insurance recoveries receivable	34,132	29,386
Beneficial interest in trust assets	4,639	4,450
Investments in nonconsolidated affiliates and other assets	7,705	8,586
<b>Total other assets</b>	<b>46,476</b>	<b>42,422</b>
Property and equipment, net	424,240	419,334
Operating lease right-of-use assets, net	24,369	27,789
Finance lease right-of-use assets, net	3,131	3,871
<b>Total assets</b>	<b>\$ 1,103,040</b>	<b>\$ 1,068,256</b>

(Continued)

Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

Consolidated Balance Sheets (Continued)

June 30, 2023 and 2022

(Dollars in Thousands)

	2023	2022
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 19,777	\$ 19,752
Accrued expenses and other	95,058	96,917
Estimated settlements due to third-party payors	59,130	52,054
Current portion of Medicare accelerated payments	-	7,393
Current maturities of long-term debt	4,440	2,692
Current portion of operating lease liabilities	6,678	5,575
Current portion of finance lease liabilities	951	983
<b>Total current liabilities</b>	<b>186,034</b>	<b>185,366</b>
Noncurrent liabilities:		
Long-term debt, less current maturities	230,332	233,621
Operating lease liabilities, less current portion	18,338	22,723
Finance lease liabilities, less current portion	1,535	2,441
Self-insurance	43,632	39,050
Deferred compensation agreements	4,961	4,131
	<b>298,798</b>	<b>301,966</b>
<b>Total liabilities</b>	<b>484,832</b>	<b>487,332</b>
Contingencies and commitments (Notes 1, 7, 11 and 14)		
Net assets:		
Net assets without donor restrictions	610,258	573,385
Net assets with donor restrictions	7,950	7,539
<b>Total net assets</b>	<b>618,208</b>	<b>580,924</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,103,040</b>	<b>\$ 1,068,256</b>

See notes to consolidated financial statements.

**Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division**

**Consolidated Statements of Operations and Changes in Net Assets**  
**Years Ended June 30, 2023 and 2022**  
**(Dollars in Thousands)**

	2023	2022
Revenues without donor restrictions, gains and other support:		
Patient service revenue	\$ 610,774	\$ 582,525
Public Aid assessment revenue	95,083	68,452
Other revenue	63,067	69,048
CARES Act revenue	-	3,695
Net assets released from restrictions—used for operating purposes	307	395
<b>Total revenues without donor restrictions, gains and other support</b>	<b>769,231</b>	<b>724,115</b>
Expenses:		
Salaries and employee benefits	397,513	370,096
Supplies, purchased services and rent	200,738	199,217
Professional fees	42,814	34,032
Management fees	4,368	4,134
Depreciation and amortization	30,708	29,752
Interest	7,491	4,098
Utilities	4,001	4,415
Repairs and maintenance	20,879	17,340
Insurance	12,669	13,399
Public Aid assessment expense	26,996	21,884
Other	11,583	12,230
<b>Total expenses</b>	<b>759,760</b>	<b>710,597</b>
<b>Operating income</b>	<b>9,471</b>	<b>13,518</b>
Nonoperating income (expense):		
Change in value of beneficial interest in investment pool	24,121	(44,398)
Investment income (loss)	2,460	(1,521)
Income tax benefit (provision)	24	(25)
Foundation activity, net	(284)	69
Other, net	1,078	42
<b>Total nonoperating income (expense)</b>	<b>27,399</b>	<b>(45,833)</b>
<b>Excess (deficit) of revenue and gains over expenses and losses</b>	<b>\$ 36,870</b>	<b>\$ (32,315)</b>

(Continued)

**Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division**

**Consolidated Statements of Operations and Changes in Net Assets (Continued)**  
**Years Ended June 30, 2023 and 2022**  
**(Dollars in Thousands)**

	<b>2023</b>	<b>2022</b>
Net assets without donor restrictions:		
Excess (deficit) of revenue and gains over expenses and losses	\$ 36,870	\$ (32,315)
Net assets released from restrictions used for property and equipment	3	22
<b>Change in net assets without donor restrictions</b>	<b>36,873</b>	<b>(32,293)</b>
Net assets with donor restrictions:		
Contributions	293	345
Investment income (loss)	231	(166)
Change in value of split-interest agreements	(9)	(29)
Change in beneficial interest in trust assets	206	(1,004)
Net assets released from restrictions used for operating and capital purposes	(310)	(417)
<b>Change in net assets with donor restrictions</b>	<b>411</b>	<b>(1,271)</b>
<b>Change in net assets</b>	<b>37,284</b>	<b>(33,564)</b>
Net assets, beginning of year	<b>580,924</b>	614,488
Net assets, end of year	<b>\$ 618,208</b>	<b>\$ 580,924</b>

See notes to consolidated financial statements.



**Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division**

**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2023 and 2022**  
**(Dollars in Thousands)**

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 37,284	\$ (33,564)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization on operating assets	30,689	29,735
Depreciation on nonoperating assets	19	17
Reduction in the carrying amount of operating lease right-of-use assets	3,420	3,589
Reduction in the carrying amount of finance lease right-of-use assets	740	600
Net change in unrealized gains and losses on investments	(20)	2,472
Change in beneficial interest in investment pool	(24,121)	44,398
Net change in fair value of beneficial interest in perpetual trust and charitable lead trust	(438)	911
Restricted contributions	(293)	(345)
Gain on sale of property and equipment	(965)	(42)
Changes in net cash from:		
Patient accounts receivable	(3,265)	1,681
Inventories, prepaid expenses and other assets	3,814	(3,157)
Amounts due from third-party payors	947	424
Accounts payable, accrued expenses, lease liabilities and other liabilities	(2,803)	(2,767)
Operating lease liability	(3,282)	(5,521)
Estimated settlements due to third-party payors	7,076	(30,108)
Medicare accelerated payments	(7,393)	(27,042)
<b>Net cash provided by (used in) operating activities</b>	<b>41,409</b>	<b>(18,719)</b>
Cash flows from investing activities:		
Purchases of property and equipment	(34,619)	(23,994)
Proceeds from sale of property and equipment	1,341	158
Purchases of investments and assets limited as to use	(7,556)	(22,278)
Sales and maturities of investments and assets limited as to use	6,782	8,566
Draws from bond project fund held by trustee	-	21,609
Distributions from beneficial interest in perpetual trust	249	169
<b>Net cash used in investing activities</b>	<b>(33,803)</b>	<b>(15,770)</b>

(Continued)

**Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division**

**Consolidated Statements of Cash Flows (Continued)**

**Years Ended June 30, 2023 and 2022**

**(Dollars in Thousands)**

	<b>2023</b>	<b>2022</b>
Cash flows from financing activities:		
Principal payments on long-term debt	\$ (1,250)	\$ (1,250)
Payments on finance lease liabilities	(965)	(652)
Restricted contributions received	293	345
<b>Net cash used in financing activities</b>	<b>(1,922)</b>	<b>(1,557)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>5,684</b>	<b>(36,046)</b>
Cash and cash equivalents, beginning of year	<b>137,889</b>	173,935
Cash and cash equivalents, end of year	<b>\$ 143,573</b>	<b>\$ 137,889</b>
Supplemental schedule of noncash investing and financing activities:		
Purchases of property and equipment in accounts payable	<b>\$ 1,891</b>	<b>\$ 601</b>

See notes to consolidated financial statements.

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Organization and Significant Accounting Policies

Regional Division, Inc. (RDI) is the sole corporate member of SwedishAmerican Health System Corporation (SAHS), an Illinois nonprofit corporation. SAHS coordinates the collective efforts of its affiliates in pursuing various activities, including providing health care and promoting health-related scientific research and education in Rockford, Illinois, and the surrounding area.

RDI is a nonstock, nonprofit corporation organized under Chapter 181 of the Wisconsin Statutes to promote medical education, research and public service by the University of Wisconsin School of Medicine and Public Health and its faculty, the University of Wisconsin Medical Foundation (UWMF) and the University of Wisconsin Hospital and Clinics Authority (UWHCA).

The consolidated financial statements include the accounts and transactions of RDI, SAHS and the following organizations, which are wholly owned affiliates of SAHS:

- SwedishAmerican Hospital (Hospital)—A Section 501(c)(3) nonprofit hospital organized to provide and promote health care to the public for patients who primarily reside in Rockford, Illinois, and the surrounding area.
- SwedishAmerican Health Foundation (Foundation)—A Section 501(c)(3) organization whose purpose is to conduct programs and fundraising that support and benefit SAHS. SAHS is the sole corporate member of the Foundation.
- SwedishAmerican Realty Corporation (Realty)—A tax-exempt subsidiary under Section 501(c)(2) of the Internal Revenue Code (the Code) that serves as a real estate holding company.
- State and Charles, Inc. (S&C)—A taxable subsidiary of SAHS whose purpose is to serve as a holding company for SwedishAmerican Health Management Corporation and Physician's Care Network, Inc.
- SwedishAmerican Health Management Corporation (SAHM)—A taxable subsidiary of S&C whose purpose is to provide nonpatient health-related services to other organizations.
- Physician's Care Network, Inc. (PCN)—A taxable subsidiary of S&C whose purpose is to provide health plan claims administration and payment for a health maintenance organization (HMO) contract.

All significant intercompany transactions have been eliminated in consolidation.

RDI, SAHS and its consolidated affiliates are collectively referred to as the Corporation.

A summary of significant accounting policies is as follows:

**Use of estimates:** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. The use of estimates and assumptions in the preparation of the accompanying consolidated financial statements is primarily related to the determination of patient accounts receivable, settlements with third-party payors, and the self-insurance accrual. Although estimates are considered to be fairly stated at the time that the estimates are made, actual results could differ.

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Organization and Significant Accounting Policies (Continued)

**Cash and cash equivalents:** All investments that are not limited as to use with an original maturity of three months or less when purchased are reflected as cash and cash equivalents.

Throughout the year, the Corporation may have amounts on deposit with financial institutions in excess of those insured by the Federal Deposit Insurance Corporation (FDIC). The Corporation has not experienced any losses in such accounts.

**Patient accounts receivable:** The collection of receivables from third-party payors and patients is the Corporation's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for explicit price concessions provided to third-party payors.

The Corporation did not have significant write-offs from third-party payors.

Recoveries of receivables previously written off are recorded when received. The past-due status of receivables is determined on a case-by-case basis depending on the payor responsible. The Corporation generally does not charge interest on past-due accounts. Receivables or payables related to estimated settlements on various third-party payor contracts in which the Corporation participates are reported as third-party payor receivables or payables.

**Investments and assets limited as to use:** Assets limited as to use include cash and investments internally designated by the Board of Directors for self-insurance and deferred compensation agreements, which the Board, at its discretion, may subsequently use for other purposes. Any amounts required to meet current liabilities of the Corporation would be classified in the consolidated balance sheets as current assets. Assets limited as to use and investments not restricted by donors are designated as trading securities.

The Corporation participates in an investment pooling agreement with UWHCA and UWMF. Investments not limited as to use or restricted by donors are invested in a pooled investment fund that aggregates investments of the Corporation with those of UWHCA and UWMF. While these funds are held and invested by UWHCA, the Corporation retains the benefits of ownership of its proportional interest in the pooled investment fund. The Corporation's ownership interest in the pooled investment fund is reported as beneficial interest in investment pool in the accompanying consolidated financial statements.

Investment income (loss), (including realized gains and losses on investments, interest, and dividends), is included in the excess (deficit) of revenue and gains over expenses and losses unless the income is restricted by donor or law. Unrealized gains and losses on investment assets held are included as investment income (loss) in the excess (deficit) of revenue and gains over expenses and losses unless the unrealized gains and losses are restricted by donor or law. Changes in the value of the beneficial interest in investment pool are included in the excess (deficit) of revenue and gains over expenses and losses.

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Organization and Significant Accounting Policies (Continued)

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

**Beneficial interest in trust assets:** The Corporation has a beneficial interest in several perpetual trusts. The change in the Corporation's share of the fair value of the trusts' net assets as of each reporting date is recognized as an adjustment to beneficial interest in trust assets and as a change in net assets with donor restrictions.

**Deferred bond issuance costs:** Costs incurred in connection with the issuance or refinancing of long-term debt are deferred and amortized over the term of the related financing using the bonds outstanding method. Such costs are presented as a direct deduction of long-term debt.

**Property and equipment:** Property and equipment is stated at cost and is depreciated using the straight-line method over the estimated useful lives of the assets. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

The estimated useful lives of depreciable property and equipment range from five to 25 years for land improvements, 10 to 40 years for buildings, and three to 20 years for furniture and fixtures.

**Impairment of long-lived assets:** The Corporation reviews the carrying value of its long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may no longer be appropriate. The Corporation assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. Impairment losses related to investments are recognized in investment income within net assets without donor restrictions. All other impairment write-downs are recognized in operating income at the time the impairment is identified. No impairment was identified during the years ended June 30, 2023 and 2022.

**Self-insurance:** The Corporation was self-insured for general and professional liability claims through June 30, 2019. The provision for the self-insured general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The provision is actuarially determined. The self-insurance liability is recorded gross of anticipated insurance recoveries. The Corporation is also self-insured for employee health and dental claims.

**Donor-restricted gifts:** Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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 net assets released from restrictions.

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Organization and Significant Accounting Policies (Continued)

**Basis of presentation:** The Corporation classifies its net assets into two categories, which are net assets without donor restrictions and net assets with donor restrictions.

**Net assets without donor restrictions:** Net assets are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation. These net assets may be used at the discretion of the Corporation's management and Board of Directors.

**Net assets with donor restrictions:** Net assets are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

**Patient service revenue and amounts due from/to third-party payors:** Patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts, representing the transaction price, are due from patients, third-party payors (including governmental programs and health insurers) and include variable consideration for retroactive revenue adjustments due to settlements of audits, reviews, and investigations. The Corporation bills the patients and third-party payors after the services are performed and/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 the Corporation. Materially all of the Corporation's patient service revenue relates to performance obligations satisfied over time and is recognized based on actual charges incurred in relation to the total expected charges. The Corporation believes the method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The performance obligations for the Corporation's inpatient acute care services are measured from admission date to discharge. For the Corporation's outpatient and physician services, the patient simultaneously receives and consumes the benefits when provided.

The Corporation records the transaction price based on standard charges for goods and services provided to patients, reduced by contractual adjustments provided to third-party payors and discounts provided to uninsured patients in accordance with the Corporation's policy, and/or implicit price concessions based on historical collection experience. Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance that varies. The Corporation also provides services to uninsured patients, and offers those uninsured patients a discount, per policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance from those who are uninsured based on historical experience. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of change.

The Corporation has elected the practical expedient to not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation'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.

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### **Note 1. Organization and Significant Accounting Policies (Continued)**

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations.

Estimates for cost report settlements are considered variable consideration and can differ from actual reimbursements based on the results of subsequent reviews and cost report audits. Changes in estimated third-party valuation allowances that relate to prior years are reported in excess (deficit) of revenue and gains over expenses and losses in the consolidated statements of operations and changes in net assets in the year they become known. The effect of such items on excess (deficit) of revenue and gains over expenses and losses was a decrease of \$2,192 and \$1,033 for the years ended June 30, 2023 and 2022, respectively.

Laws and regulations governing the Medicare and Medicaid programs are 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.

The Corporation has elected the practical expedient to not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation'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.

**Charity care:** The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Corporation's policy is to provide medically necessary health services regardless of the patient's ability to pay for such services. The Corporation maintains records to identify and monitor the level of charity care it provides.

**COVID-19 pandemic:** In January 2020, the Secretary of the U.S. Department of Health and Human Services (HHS) declared a national public health emergency due to a novel strain of coronavirus (COVID-19). In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The resulting measures to contain the spread and impact of COVID-19 have adversely affected the operations of health care providers. As a result of the COVID-19 pandemic, federal and state governments have passed legislation, promulgated regulations and taken other administrative actions intended to assist health care providers in providing care to COVID-19 and other patients during the public health emergency. The national public health emergency declaration ended on May 11, 2023.

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Organization and Significant Accounting Policies (Continued)

Sources of relief include the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), which was enacted on March 27, 2020. In addition to funding distributed to eligible providers, the CARES Act provided for an expansion of the Medicare Accelerated and Advance Payment Program whereby inpatient acute care corporations and other eligible providers could request accelerated payment of up to 100% of their Medicare payment amount for a six-month period to be repaid through withholding of future Medicare fee-for-service payments beginning 12 months after receipt. During the year ended June 30, 2022, the Corporation was the beneficiary of these stimulus measures, including the Medicare Accelerated and Advance Payment Program. Health care providers may recognize grant payments as revenue when there is reasonable assurance that they have complied with the terms and conditions associated with the grant.

The Corporation's accounting policies for the recognition of these stimulus monies are described below.

**CARES Act Funds:** During the years ended June 30, 2023 and 2022, the Corporation received \$0 and \$3,695, respectively, in Provider Relief Fund payments through the CARES Act. The recognition of amounts received is conditional upon the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, certification that payment will be used to prevent, prepare for and respond to COVID-19 and shall reimburse the recipient only for health care-related expenses or lost revenues that are attributable to COVID-19, and receipt of the funds. Amounts are recognized as operating revenue only to the extent the Corporation is reasonably assured that underlying terms and conditions are met.

Medicare accelerated payments of \$39,272 were received by the Hospital during the year ended June 30, 2020. The Medicare accelerated payments are interest free for up to 12 months and the program requires that Centers for Medicare and Medicaid Services (CMS) recoup the accelerated payments beginning 12 months after receipt by the provider, by withholding future Medicare fee-for-service payments for claims until such time as the accelerated payments have been fully recouped. The program requires that any outstanding balance remaining after 29 months must be repaid by the provider or be subjected to a 4% annual interest rate. Recoupment of accelerated payments received began in April 2021. As of June 30, 2023 all amounts had been recouped. As of June 30, 2022, the liability for Medicare accelerated payments was \$7,393 included in current liabilities within the accompanying consolidated balance sheets.

The Health Resources and Services Administration (HRSA) may audit whether the Corporation qualified and met the conditions necessary to receive the funds through various future periods. Therefore, it is possible that the Corporation may have to repay an amount previously received by HRSA.

**Operating income:** The consolidated statements of operations and changes in net assets include an intermediate measure of operations, operating income, which represents the activity of the ongoing operations of the Corporation. Nonoperating (expense) income, excluded from operating income, consists primarily of nonrecurring transactions and transactions that are outside of the Corporation's primary health care activities. All of the Foundation's activity is considered to be nonoperating.

**Excess (deficit) of revenue and gains over expenses and losses:** The consolidated statements of operations and changes in net assets include excess (deficit) of revenue and gains over expenses and losses. Changes in net assets without donor restrictions, which are excluded from excess (deficit) of revenue and gains over expenses and losses, include 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.



## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Organization and Significant Accounting Policies (Continued)

**Donated services:** A number of volunteers have donated services to the Corporation's program services and fundraising campaigns during the year; however, the value of these donated services is not reflected in the consolidated financial statements since the services do not require specialized skills.

**Income taxes:** For the for-profit subsidiaries, deferred taxes are recorded on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

SAHS, Hospital and Foundation have received determination letters from the Internal Revenue Service (IRS) stating they are tax-exempt under Section 501(c)(3) of the Code. Realty has received a determination letter from the IRS stating that it is tax-exempt under section 501(c)(2) of the Code.

SAHS, Hospital, Foundation and Realty each file a Form 990 (Return of Organization Exempt from Income Tax), and State and Charles, Inc., and SAHM each file Form 1120 (U.S. Corporation Income Tax Return) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the following: tax-exempt status of each entity, the nature, characterization and taxability of joint venture income and various positions relative to potential sources of unrelated business taxable income (UBTI). UBTI is reported on IRS Form 990-T, as appropriate. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the tax position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. At June 30, 2023 and 2022, there were no unrecognized tax benefits identified or recorded as liabilities.

The Forms 990, 990-T and 1120 filed by the Corporation are subject to examination for up to three years from the extended due date of each return. These returns are no longer subject to examination for tax years ended before June 30, 2019.

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Organization and Significant Accounting Policies (Continued)

**Property and sales taxes:** On June 14, 2012, the Governor of Illinois signed into law legislation that governs property and sales tax exemption for nonprofit hospitals. The law, which was codified in Section 15-86 of the Illinois Property Tax Code and Section 3-8 of the Service Occupation Tax Act, took effect on the date it was signed. Under the law, in order to maintain its property and sales tax exemption, the value of specified services and activities of a nonprofit hospital must equal or exceed the estimated value of the hospital's property tax liability, as determined under a formula in the law. The specified services are those that address the health care needs of low-income or underserved individuals or relieve the burden of government with regard to health care services, and include: the cost of free or discounted services provided pursuant to the hospital's financial assistance policy; other unreimbursed costs of addressing the health needs of low-income and underserved individuals; direct or indirect financial or in-kind subsidies of state and local governments; the unreimbursed cost of treating Medicaid and other means-tested program recipients; the unreimbursed cost of treating dual-eligible Medicare/Medicaid patients; and other activities that the Illinois Department of Revenue determines relieve the burden of government or address the health of low-income or underserved individuals.

On January 5, 2016, the Fourth District Appellate Court of Illinois ruled that Section 15-86 of the Illinois Property Tax Code is unconstitutional. This decision was appealed to the Illinois Supreme Court, which on March 23, 2017, vacated the Fourth District Appellate Court's ruling, citing a lack of jurisdiction, and remanded the case to circuit court for reconsideration. However, in its decision the Illinois Supreme Court did not rule on the constitutionality of Section 15-86 of the Illinois Property Tax Code.

On September 20, 2018, the Illinois Supreme Court upheld the First District Appellate Court of Illinois ruling that Section 15-86 is constitutional. However, additional legal challenges to this law may occur. Management continues to believe that the Hospital meets the requirements under the 2012 law to maintain its property and sales tax exemption; however, such requirements may change based on the outcome of such future legal challenges.

**Recent accounting pronouncement:** In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduced a new model for recognizing credit losses on financial instruments based on an estimate of the current expected credit losses. The new current expected credit losses (CECL) model generally calls for the immediate recognition of all expected credit losses and applies to financial instruments and other assets, including accounts receivable and other financial assets measured at amortized cost, debt securities and other financial assets. This guidance replaces the current incurred loss model for measuring expected credit losses, requires expected losses on available-for-sale debt securities to be recognized through an allowance for credit losses rather than as reductions in the amortized cost of the securities and provides for additional disclosure requirements. The ASU is effective for the Corporation for the annual reporting period beginning July 1, 2023. The Corporation is currently evaluating the effects adoption of ASU 2016-13 will have on its consolidated financial statements.

**Reclassification:** Certain prior year amounts have been reclassified to conform to the current year presentation. Such reclassifications had no effect on previously reported deficit of revenue and gains over expenses and losses or changes in net assets.

**Subsequent events:** The Corporation has evaluated subsequent events for potential recognition and/or disclosure through October 25, 2023, the date the consolidated financial statements were issued.

In July 2023, the Corporation purchased a building that was being leased as of June 30, 2023, for \$12,750. The lease right-of-use (ROU) asset and lease liability that existed at the time were derecognized and the building cost was recorded within property and equipment.

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 2. Contractual Arrangements with Third-Party Payors

The Corporation provides care to certain patients under the Medicare and Medicaid programs. The Medicare program pays for substantially all inpatient and outpatient services at predetermined rates under its corresponding prospective payment system based on treatment diagnosis. The Medicaid program reimburses the Corporation for inpatient and outpatient services at predetermined rates. Changes in the Medicare and Medicaid programs and reductions of funding levels could have an adverse effect on the future amounts recognized as patient service revenue.

The Corporation has also entered into payment arrangements with certain managed care organizations. The basis for payment to the Corporation under these agreements includes prospectively determined rates per discharge, daily rates and discounts from established charges.

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party arrangements.

The Corporation's patient service revenue and patient accounts receivable consisted of the following payors as of and for the years ended June 30:

	2023	2022
Patient service revenue:		
Medicare	31 %	26 %
Medicaid	18	16
Managed care	47	52
Self-pay and other	4	6
	<u>100 %</u>	<u>100 %</u>
	2023	2022
Patient accounts receivable:		
Medicare	27 %	24 %
Medicaid	15	13
Managed care	39	43
Self-pay and other	19	20
	<u>100 %</u>	<u>100 %</u>

One managed care payor accounted for 30% and 29% of patient service revenue for the years ended June 30, 2023 and 2022, respectively. One managed care payor accounted for 16% of patient accounts receivable at both June 30, 2023 and 2022.

**Illinois Provider Hospital Assessment Program:** The Corporation participates in the State of Illinois hospital assessment tax program (the Program), which is administered by the Illinois Department of Healthcare and Family Services. The Program payments are in effect for the state fiscal years ending each June 30. On March 12, 2018, the Governor signed legislation to implement a redesigned program based on payments on updated patient utilization data, shifted funding from fixed payments to dynamic live rates, and recognized and incentivized the shift from inpatient to outpatient services. The redesigned program approved by CMS in June 2018 was effective July 1, 2018. The Program has been renewed and extended through December 31, 2026.

## **Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division**

### **Notes to Consolidated Financial Statements (Dollars in Thousands)**

---

#### **Note 2. Contractual Arrangements with Third-Party Payors (Continued)**

Total assessment revenue recognized by the Corporation related to this Program amounted to \$95,083 and \$68,452 during the years ended June 30, 2023 and 2022, respectively. Total assessment tax incurred by the Corporation related to this Program amounted to \$26,996 and \$21,884 during the years ended June 30, 2023 and 2022, respectively. These amounts are shown in the consolidated statements of operations and changes in net assets as Public Aid assessment revenue and Public Aid assessment expense.

#### **Note 3. Charity Care, Uncompensated Care and Community Benefits**

In the ordinary course of business, the Corporation renders medically necessary health services to patients who are financially unable to pay for such care. The Corporation provides care to those patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Corporation maintains records to identify and monitor the level of charity care it provides. The Corporation's charity care policy includes self-pay discounts and presumptive charity care for patients meeting certain eligibility requirements. Charity care is measured based on the Corporation's estimated cost of providing charity care. That estimate is made by calculating the departmental ratio of cost to gross charges and applying that ratio to uncompensated charges associated with providing charity care to patients. The cost of charity care provided was \$6,956 and \$6,292 for the years ended June 30, 2023 and 2022, respectively.

In addition, the Corporation, in furtherance of its commitment to the community, also incurs significant time and commits significant resources to meet otherwise unfulfilled needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or independently financially viable. These programs, oriented to the economically disadvantaged, medically underserved, or elderly, as well as to the community at large, include health screening and assessments, prevention, prenatal and nutritional services, and care for children.

On April 1, 2009, the Illinois Hospital Uninsured Patient Discount Act (the Act) became law. The Act requires hospitals to provide certain mandated discounts from charges to the uninsured in Illinois. Hospital charges to eligible uninsured Illinois residents, based on income and federal poverty guidelines, cannot exceed the costs of services plus 35%. Furthermore, a hospital may not collect more than 25% of an eligible uninsured family's gross income in any 12-month period. Management believes that the Corporation's charity care policy complies with the uncompensated care mandated under the Act.

**Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division**

**Notes to Consolidated Financial Statements**  
**(Dollars in Thousands)**

**Note 4. Investments and Assets Limited as to Use**

The composition of investments and assets limited as to use, is as follows at June 30:

	2023	2022
Mutual funds	\$ 11,772	\$ 12,060
Money market funds	3,750	1,143
Government and agency obligations	243	484
Equity securities	-	1,560
Other	70	26
Beneficial interest in investment pool	337,886	313,533
	<u>\$ 353,721</u>	<u>\$ 328,806</u>

These amounts are included on the consolidated balance sheets as follows at June 30:

	2023	2022
Investments and assets limited as to use:		
Investments internally designated for self-insurance fund	\$ 10,874	\$ 11,142
Investments internally designated for deferred compensation agreements	4,961	4,131
Beneficial interest in investment pool	337,886	313,533
	<u>\$ 353,721</u>	<u>\$ 328,806</u>

Total investment return without donor restrictions from investments and assets limited as to use consists of the following for the years ended June 30:

	2023	2022
Investment income (loss):		
Interest and dividend income	\$ 2,168	\$ 656
Net realized gains from sale of investments	504	189
Net change in unrealized gains and losses on trading securities	(212)	(2,366)
Total investment income (loss)	<u>2,460</u>	<u>(1,521)</u>
Change in value of beneficial interest in investment pool	24,121	(44,398)
	<u>\$ 26,581</u>	<u>\$ (45,919)</u>

**Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division****Notes to Consolidated Financial Statements**  
**(Dollars in Thousands)****Note 4. Investments and Assets Limited as to Use (Continued)**

The underlying investments within the UWHCA investment pool are invested as follows at June 30:

	2023	2022
Fixed-income securities	44 %	49 %
International equity securities	23	23
Domestic equity securities	29	24
Alternative investments	4	4
	<u>100 %</u>	<u>100 %</u>

**Note 5. Liquidity and Availability**

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

	2023	2022
Financial assets at year-end:		
Cash and cash equivalents	\$ 143,573	\$ 137,889
Patient accounts receivable	79,028	75,763
Amounts due from third-party payors	5,930	6,877
Investments internally designated for self-insurance fund	10,874	11,142
Investments internally designated for deferred compensation agreements	4,961	4,131
Beneficial interest in investment pool	337,886	313,533
	<u>582,252</u>	<u>549,335</u>
Less amounts unavailable for general expenditures due to donor restrictions	<u>(3,311)</u>	<u>(3,089)</u>
Financial assets available for general expenditures within one year	<u>\$ 578,941</u>	<u>\$ 546,246</u>

The Corporation has certain board-designated assets limited as to use which are available for general expenditures within one year in the normal course of operations. Accordingly, these assets have been included in the amounts above. Certain financial assets include amounts whose use is restricted by law or donor. These amounts are not available for general expenditures within the next year.

As part of the Corporation's liquidity management plan, cash in excess of daily requirements is invested in an insured cash sweep account.

**Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division**

**Notes to Consolidated Financial Statements**  
**(Dollars in Thousands)**

**Note 6. Property and Equipment**

Property and equipment consisted of the following at June 30:

	2023	2022
Land and land improvements	\$ 29,718	\$ 28,805
Buildings	378,136	371,192
Furniture and equipment	218,734	201,030
Construction in progress	19,663	11,719
	<u>646,251</u>	<u>612,746</u>
Less accumulated depreciation	222,011	193,412
	<u>\$ 424,240</u>	<u>\$ 419,334</u>

Depreciation expense during the years ended June 30, 2023 and 2022, was \$30,606 and \$29,652, respectively, of which \$19 and \$17, respectively, is included in other nonoperating income (expense) on the consolidated statements of operations and changes in net assets.

**Note 7. Notes Payable and Long-Term Debt**

Notes payable and long-term debt consisted of the following at June 30:

	2023	2022
UWHCA promissory note for proportionate share of UWHCA Series 2018 bonds due April 1, 2048:		
Fixed rate of 5%, principal payments due starting 2023	\$ 113,131	\$ 113,131
Variable rate of 3.70% and 0.60% at June 30, 2023 and 2022, respectively, principal payments due starting 2030	63,555	63,555
UWHCA promissory note for proportionate share of UWHCA Series 2020 bonds due April 1, 2044:		
Fixed rate of 2.6%, principal payments due starting 2033	45,200	45,200
Illinois Finance Authority Revenue Bonds, Series 2010A, fixed rates of 3.47% and 1.80% at June 30, 2023 and 2022, respectively, \$315 principal payable semiannually through April 15, 2030	4,410	5,040
Illinois Finance Authority Revenue Bonds, Series 2010B, fixed rates of 3.47% and 1.80% at June 30, 2023 and 2022, respectively, \$310 principal payable semiannually through April 15, 2030	4,340	4,960
	<u>230,636</u>	<u>231,886</u>
Unamortized bond premium	5,156	5,525
Unamortized deferred bond issue costs	(1,020)	(1,098)
	<u>234,772</u>	<u>236,313</u>
Less current maturities	(4,440)	(2,692)
	<u>\$ 230,332</u>	<u>\$ 233,621</u>

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 7. Notes Payable and Long-Term Debt (Continued)

Effective April 19, 2010, the Illinois Finance Authority, on behalf of the Hospital, issued \$25,000 of direct fixed rate Revenue Bonds, Series 2010 (Series 2010 Bonds). The proceeds of the bonds were used to repay a \$25,000 note payable to a bank. In October 2016, the Hospital modified and split the Series 2010 Bonds into Series 2010A and Series 2010B. Under the agreement, UWHCA signed a limited guaranty agreement for the Series 2010 Bonds. The interest rates were reduced from 4.05% to 1.80% with an escalation of the rate up to 2.10% if UWHCA's bond rating lowers. Effective October 15, 2022, the interest rate reset to 3.47% per the terms of the agreement. There are no remaining interest rate reset dates prior to the maturity of the Series 2010 bonds.

Effective November 15, 2018, UWHCA issued \$166,315 of fixed rate Revenue Bonds, Series 2018A (Series 2018A Bonds) with a premium of \$10,017. A portion of these bonds was issued on behalf of the Corporation to fund the master facility plan. Concurrently, UWHCA issued \$85,285 of variable rate Revenue Bonds, Series 2018C (Series 2018C Bonds). A portion of the Series 2018C Bonds was issued on behalf of the Corporation to refund the Corporation's Series 2004 Bonds. The Corporation is responsible for the repayment of its proportionate share of the Series 2018A Bonds and Series 2018C Bonds (together, the UWHCA 2018 Bonds) which are 68.57% and 75.00%, respectively.

The Corporation entered into a promissory note with UWHCA for \$176,686 to repay the proportionate share of the UWHCA 2018 Bonds, excluding the premium. Under this note, the Corporation pays interest and will make principal payments to UWHCA for its proportional share of the UWHCA Bonds in accordance with the UWHCA 2018 Bonds' terms though April 1, 2048.

Effective December 18, 2020, UWHCA issued \$150,000 of fixed rate Revenue Bonds, Series 2020. A portion of these bonds was issued on behalf of the Corporation to defease the Corporation's Series 2012 Bonds. The Corporation is responsible for the repayment of its proportionate share of the Series 2020 Bonds, which is 30.13%.

The Corporation entered into a promissory note with UWHCA for \$45,200 to repay the proportionate share of the UWHCA 2020 Bonds. Under this note, the Corporation pays interest and will make principal payments to UWHCA for its proportional share of the UWHCA Bonds in accordance with the UWHCA 2020 Bonds' terms though April 1, 2044.

The Series 2010 Bonds were issued pursuant to a Master Trust Indenture, as supplemented, which contained various covenants, including achievement of specified financial ratios and limitations on additional debt. Effective December 18, 2020, the Illinois Finance Authority, lender and Hospital entered into the Second Amended and Restated Loan Agreement for the Series 2010 Bonds in order to admit the Hospital and SAHS to the UWHCA Obligated Group, cancel the Series 2010 Hospital Master Note and the UWHCA guaranty, discharge the Hospital Master Indenture, and issue a UWHCA 2020E Master Note Obligation for \$11,875 as security for the Series 2010 Bonds.

Interest expense is composed of the following for the years ended June 30:

	2023	2022
Interest paid on long-term debt	\$ 282	\$ 2,886
Accrued interest on bonds	7,646	4,041
Interest income on bond project fund	-	(61)
Capitalized interest	(437)	(2,768)
	<u>\$ 7,491</u>	<u>\$ 4,098</u>



**Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division****Notes to Consolidated Financial Statements**  
**(Dollars in Thousands)****Note 7. Notes Payable and Long-Term Debt (Continued)**

Future maturities of long-term debt at June 30, 2023, are as follows:

Years ending June 30:

2024	\$	4,440
2025		3,291
2026		3,454
2027		3,607
2028		3,743
Thereafter		212,101
	\$	<u>230,636</u>

**Note 8. Net Assets With Donor Restrictions**

Net assets with donor restrictions consist of the following at June 30:

	2023	2022
Subject to expenditure for the following specified purposes:		
Acquisition of property and equipment	\$ 250	\$ 254
Other	1,413	1,205
	<u>1,663</u>	<u>1,459</u>
Endowments and perpetual trusts, the income from which is expendable for health care services:		
Endowments	1,935	1,933
Perpetual trusts	4,352	4,147
	<u>6,287</u>	<u>6,080</u>
Total net assets with donor restrictions	<u>\$ 7,950</u>	<u>\$ 7,539</u>

**Note 9. Endowment Funds**

The Corporation's endowment consists of 12 individual donor-restricted endowment funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of relevant law:** The Board of Directors of the Corporation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Illinois Legislature, requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent any explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classified as net assets with donor restrictions (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts 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.

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

#### Note 9. Endowment Funds (Continued)

In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Corporation and the donor-restricted endowment fund
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 Corporation
7. The investment policies of the Corporation

The changes in endowment net assets for the Corporation were as follows for the years ended June 30:

	2023			2022		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 2,523	\$ 2,523	\$ -	\$ 2,713	\$ 2,713
Investment (loss) income, net	-	231	231	-	(166)	(166)
Contributions	-	6	6	-	10	10
Appropriation of endowment income for expenditure	-	(58)	(58)	-	(34)	(34)
Endowment net assets, end of year	\$ -	\$ 2,702	\$ 2,702	\$ -	\$ 2,523	\$ 2,523

**Funds with deficiencies:** At June 30, 2023 and 2022, there were no endowment funds with deficiencies.

**Return objectives and risk parameters:** The Corporation has adopted investment and spending policies for endowment assets to preserve capital while earning market rates without undue risk. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve the principal and provide liquidity of amounts over the principal while assuming a moderate level of investment risk.

**Strategies employed for achieving objectives:** To satisfy its long-term rate-of-return objectives, the Corporation 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). The Corporation's policy is to invest endowment funds in both fixed income and equity securities with a maximum amount of equity securities at 65%. Management believes this strategy will help to achieve the Corporation's long-term return objectives within prudent risk constraints.

**Spending policy and how the investment objectives relate to spending policy:** The Corporation's spending policy is that income from donor-restricted funds will be spent on the intended service, program, or purpose, within a reasonable time period.

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### **Note 10. Fair Value Disclosures**

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

**Level 1:** Quoted market prices in active markets for identical assets or liabilities.

**Level 2:** Observable market-based inputs or unobservable inputs that are corroborated by market data.

**Level 3:** Unobservable inputs that are not corroborated by market data.

The following is a description of the valuation methodology used for the Corporation's assets carried at fair value:

**Investment securities—Level 1:** The fair value of investment securities that are considered Level 1 is the market value based on quoted prices in active markets where the securities are traded.

**Government and agency obligations—Level 2:** The fair value of government and agency obligations that are considered Level 2 is determined based on the quoted yield on a Treasury security that is most similar to the security being valued, adjusted for variances in the maturity, coupon and other features.

**Beneficial interest in trust assets—Level 3:** The fair value of the beneficial interest in trust assets represents the Corporation's proportionate interest in the value of the trusts. The fair values of the trusts were provided by the respective trustees.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities carried at fair value in the consolidated financial statements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

**Beneficial interest in investment pool—net asset value:** The Corporation invests in a pooled fund maintained by UWHCA. The UWHCA pooled fund (pool) is composed of various types of investments, including mutual funds, equity and debt securities, and alternative investments. The Corporation owns an interest in UWHCA's pooled fund; the Corporation does not own or have any interest in the underlying investments. As an investor in the pooled fund, the Corporation agrees that the investment of funds in the pool is a long-term investment and will use reasonable efforts to not withdraw funds from the pool unless they are needed for immediate expenditure. The Corporation agrees it will make every effort to provide 30 days' prior written notice for withdrawals. As a practical expedient, the fair value of the Corporation's interest in the UWHCA pooled fund is based on the net asset value of the pooled funds reported by UWHCA.

# Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

## Notes to Consolidated Financial Statements (Dollars in Thousands)

### Note 10. Fair Value Disclosures (Continued)

*Fair value on a recurring basis:* The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of June 30:

		2023						
		Total	Level 1	Level 2	Level 3	Net Asset Value		
Assets:								
Investments and assets limited as to use:								
Mutual funds—equity securities:								
Large-cap	\$	2,895	\$	2,895	\$	-	\$	-
Medium-cap		449		449		-		-
Small-cap		383		383		-		-
Mutual funds—debt securities:								
Fixed income		8,045		8,045		-		-
Government and agency obligations		243		-		243		-
Equity securities large-cap		-		-		-		-
Other		70		-		37		33
Beneficial interest in investment pool		337,886		-		-		337,886
Beneficial interest in trust assets		4,639		-		-		4,639
	\$	354,610	\$	11,772	\$	280	\$	4,672
							\$	337,886
		2022						
		Total	Level 1	Level 2	Level 3	Net Asset Value		
Assets:								
Investments and assets limited as to use:								
Mutual funds—equity securities:								
Large-cap	\$	2,454	\$	2,454	\$	-	\$	-
Medium-cap		339		339		-		-
Small-cap		321		321		-		-
Mutual funds—debt securities:								
Fixed income		8,946		8,946		-		-
Government and agency obligations		484		-		484		-
Equity securities large-cap		1,560		1,560		-		-
Other		26		-		26		-
Beneficial interest in investment pool		313,533		-		-		313,533
Beneficial interest in trust assets		4,450		-		-		4,450
	\$	332,113	\$	13,620	\$	510	\$	4,450
							\$	313,533

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows for the years ended June 30:

	Beneficial Interest in Trust Assets	
	2023	2022
Balance, beginning of year	\$ 4,450	\$ 5,530
Distributions	(249)	(169)
Change in value of beneficial interest in trust assets	438	(911)
Balance, end of year	\$ 4,639	\$ 4,450

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

#### Note 11. Leases

The Corporation determines if a contract is or contains a lease at inception, which is the date on which the terms of the contract are agreed to and the agreement creates enforceable rights and obligations. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease ROU assets and lease liabilities are recognized based on the present value of lease payments over the lease term at commencement. The Corporation has elected to use the risk-free rate, specifically the U.S. Treasury bill rate, to discount the lease payments for leases that do not have a readily determinable implicit rate.

The Corporation has elected to not apply the recognition requirements to leases of less than 12 months. These leases are expensed on a straight-line basis and are not included within the Corporation's lease ROU asset or lease liability. During the years ended June 30, 2023 and 2022, the Corporation did not have any lease transactions with related parties.

Operating lease cost is recognized on a straight-line basis over the lease term. Finance lease cost is recognized as a combination of the amortization expense for the lease ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the least term. The components of lease cost are as follows for the years ended June 30:

	2023	2022
Operating lease cost	\$ 6,381	\$ 6,281
Short-term lease cost	2,823	2,409
Variable lease cost	1,230	1,184
Finance lease cost:		
Amortization of lease ROU assets	995	955
Interest on lease liabilities	1	1
Total lease cost	<u>\$ 11,430</u>	<u>\$ 10,830</u>

Lease terms and discount rates are as follows as of June 30:

	2023	2022
Weighted-average remaining lease term (in years):		
Operating leases	5.09	6.12
Finance leases	2.84	3.74

Lease terms and discount rates are as follows:

Weighted-average discount rate:		
Operating leases	0.48%	0.50%
Finance leases	0.28%	0.28%

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

#### Note 11. Leases (Continued)

The approximate future minimum lease payments under operating and finance leases at June 30, 2023, are as follows:

	Operating Leases	Finance Leases
Years ending June 30:		
2024	\$ 6,784	\$ 957
2025	5,894	904
2026	4,087	448
2027	3,487	187
2028	1,843	-
Thereafter	3,264	-
Total lease payments	25,359	2,496
Less imputed interest	(343)	(10)
Total present value of lease liabilities	<u>\$ 25,016</u>	<u>\$ 2,486</u>
	2023	2022
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating leases	\$ 6,777	\$ 6,978
Finance leases	965	652

#### Note 12. Benefit Plans

The Corporation has two defined-contribution benefit plans covering substantially all employees. Contributions depend upon employee earnings, length of service, and employee contributions. The expense associated with the Corporation's contributions to these plans totaled \$11,154 and \$11,189 for the years ended June 30, 2023 and 2022, respectively.

In addition, the Corporation sponsors a defined-benefit health care plan that provides postretirement medical benefits to the Corporation's and certain of its affiliates' employees and their dependents through age 70. Eligibility requirements are 20 years of service and the attainment of age 55. Effective January 1, 2000, retiree premiums cover the entire cost of coverage.

#### Note 13. Deferred Compensation Agreements

The Corporation has deferred compensation plans for certain executives and physicians with associated assets and liabilities totaling \$4,961 and \$4,131 as of June 30, 2023 and 2022, respectively. The physician plans are currently frozen. Both the executive and physician plans are recorded as an asset and a liability on the Corporation's consolidated balance sheets. Activity primarily consists of distributions to participants and investment return. There is no corporate contribution to the physician plans. The expense associated with the Corporation's contributions to the executive plan was approximately \$181 and \$156 for the years ended June 30, 2023 and 2022, respectively.

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### **Note 14. Insurance and Contingencies**

For claims asserted after June 30, 2019, the Corporation has arranged claims-made professional, general liability and employed physician coverage, up to certain limits, from a captive insurance company, controlled by UWHCA. Such coverage has been arranged through July 1, 2024. The Corporation was self-insured for general liability and professional liability claims up to certain specified limits arising from incidents occurring after February 1, 1976. The Corporation carried claims-made professional liability insurance up to certain specified limits for its employed physicians. Such coverage was in place through July 1, 2019.

The Corporation carries claims-made insurance up to certain specified limits for certain contracted physicians. Such coverage has been arranged through July 1, 2024.

The Corporation carries claims-made excess commercial insurance coverage up to certain specified limits for claims in excess of self-insured and captive retentions. Such coverage has been arranged through July 1, 2024.

Accruals for self-insured professional liability risks as of June 30, 2023 and 2022, are \$43,632 and \$39,050, respectively, and are included in noncurrent liabilities on the consolidated balance sheets. The amounts are determined by assessing asserted and unasserted claims identified by management's incident reporting system and are estimated by an independent consulting actuary based on industry and the Corporation's own historical reporting patterns using a discount rate of 3% for claims asserted subsequent to June 30, 2019. As of June 30, 2021, the Corporation is no longer using a discount rate for claims asserted prior to July 1, 2019, due to the age of the outstanding claims. Although the ultimate settlement of these accruals may vary from these estimates, management believes that the amounts provided in the consolidated financial statements are adequate. The insurance accruals could be adversely affected if actual payments of claims exceed management's projected estimates of claims.

The estimated amounts of the self-insurance liability that will be recovered through insurance coverage as of June 30, 2023 and 2022, are \$34,132 and \$29,386, respectively, and are reported as insurance recoveries receivable in the accompanying consolidated balance sheets.

The Corporation is funding its self-insured risks based on actuarial estimates using the Corporation's historical loss data, adjusted for industry trends and current conditions.

**Litigation:** The Corporation is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of the lawsuits cannot be determined with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Corporation's financial condition.

**Regulatory investigations:** The U.S. Department of Justice, other federal agencies and the Illinois Department of HFS routinely conduct regulatory investigations and compliance audits of health care providers. The Corporation is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material effect on the Corporation's financial position, results from operations, and cash flows.

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 14. Insurance and Contingencies (Continued)

**Regulatory environment including fraud and abuse matters:** The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant refunds for patient services previously billed and paid. Management believes that the Corporation is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries that are expected to have a material adverse effect on the Corporation have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

**CMS Recovery Audit Contractor Program:** Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. The RACs identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006, which authorized the expansion of the RAC program to all 50 states. CMS began rolling out this program in early 2010 in Illinois. The Corporation has recorded a reserve for estimated amounts that will be repaid under the RAC program based on the Corporation's RAC program experience to date.

#### Note 15. Income Taxes

SAHM and PCN are for-profit corporations. SAHM and PCN are subsidiaries of S&C, which is also a for-profit corporation, and are treated as a consolidated group for federal and state tax purposes. The combined taxable companies have operating loss carryforwards totaling approximately \$19,356 and \$17,688 at June 30, 2023 and 2022, respectively, which expire as follows: \$28 in 2030, \$99 in 2032, \$2,190 in 2033, \$676 in 2034, \$376 in 2035, \$1,943 in 2036, \$2,069 in 2037, \$2,226 in 2038, \$3,905 in 2039, \$1,099 in 2040, \$1,700 in 2041, and \$3,045 in 2042. It is not anticipated that the tax benefits will be realized before the operating loss carryforwards expire and a valuation reserve has been recorded.

Net deferred tax assets consist of the following components as of June 30:

	2023	2022
Deferred tax assets—net operating loss carryforwards	\$ 6,000	\$ 5,483
Valuation allowance	(6,000)	(5,483)
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

The components of the income tax benefit (provision) for the years ended June 30, 2023 and 2022 are as follows:

	2023	2022
Current income tax benefit (provision)	\$ 24	\$ (25)



## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

#### Note 16. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to these functions for the years ended June 30, 2023 and 2022, are as follows:

	2023							
	Health Care Services					Support Services		Total
	Hospital Services	Clinical Services	Cancer Center	Home Health Care	Health Management Services	Health Plan Administration	MG&A	
Salaries and employee benefits	\$ 248,185	\$ 93,504	\$ 16,168	\$ 3,243	\$ 890	\$ -	\$ 35,523	\$ 397,513
Supplies, purchased services and rent	123,201	14,953	33,568	750	233	10,070	17,963	200,738
Professional fees	32,280	6,874	1,059	12	-	-	2,589	42,814
Management fees	3,207	-	-	-	-	1,161	-	4,368
Depreciation and amortization	23,138	3,985	576	-	33	-	2,976	30,708
Interest	1	-	-	-	-	24	7,466	7,491
Utilities	2,475	756	-	-	-	-	770	4,001
Repairs and maintenance	9,243	1,855	1,099	76	198	-	8,408	20,879
Insurance	790	3,849	159	6	14	-	7,851	12,669
Public Aid assessment expense	26,996	-	-	-	-	-	-	26,996
Other	3,976	907	28	12	-	73	6,587	11,583
	<u>\$ 473,492</u>	<u>\$ 126,683</u>	<u>\$ 52,657</u>	<u>\$ 4,099</u>	<u>\$ 1,368</u>	<u>\$ 11,328</u>	<u>\$ 90,133</u>	<u>\$ 759,760</u>

  

	2022							
	Health Care Services					Support Services		Total
	Hospital Services	Clinical Services	Cancer Center	Home Health Care	Health Management Services	Health Plan Administration	MG&A	
Salaries and employee benefits	\$ 221,509	\$ 96,256	\$ 14,615	\$ 2,789	\$ 787	\$ -	\$ 34,140	\$ 370,096
Supplies, purchased services and rent	126,453	12,625	30,731	701	342	10,375	17,990	199,217
Professional fees	25,825	4,911	106	-	-	-	3,190	34,032
Management fees	2,917	-	-	-	-	1,206	11	4,134
Depreciation and amortization	22,401	4,024	173	-	20	-	3,134	29,752
Interest	-	-	-	-	-	31	4,067	4,098
Utilities	2,815	779	-	-	-	-	821	4,415
Repairs and maintenance	7,833	1,826	1,036	38	194	-	6,413	17,340
Insurance	530	2,706	106	6	14	-	10,037	13,399
Public Aid assessment expense	21,884	-	-	-	-	-	-	21,884
Other	3,797	1,011	4	7	1	70	7,340	12,230
	<u>\$ 435,964</u>	<u>\$ 124,138</u>	<u>\$ 46,771</u>	<u>\$ 3,541</u>	<u>\$ 1,358</u>	<u>\$ 11,682</u>	<u>\$ 87,143</u>	<u>\$ 710,597</u>

Certain costs have been allocated between direct patient services and support services. All of the Foundation's expenses are considered to be fundraising and these expenses were \$473 and \$770 for the years ended June 30, 2023 and 2022, respectively.

The consolidated financial statements present certain expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, are allocated to a function based on square footage and usage.

## Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 17. Investments in Nonconsolidated Affiliates and Related Party Transactions

The Corporation has equity interests in the following organizations:

- UW Cancer Center Johnson Creek, LLC, which was formed to acquire, hold, own and lease assets to be used by health care providers for their provision of cancer care services. The Corporation's interest is 33%.
- The Featherstone Partnership, L.P., which operates a standalone surgery center located in Rockford, Illinois. The Corporation's interest is 29%.
- Northern Illinois Vein Clinic, a general partnership, which was formed to own and operate radio frequency equipment to treat vein conditions. The Corporation's 50% interest was sold December 31, 2022.
- Forest City Diagnostic Imaging LLC, which operates a facility for magnetic resonance imaging and multi-modality imaging in Rockford, Illinois. The Corporation's interest is 49%.
- SwedishAmerican Health Alliance, a corporation, which was formed as a contracting agent for preferred provider contracts between the Corporation, physicians and consumers. The Corporation's interest is 50%.
- Three Rivers Partners, LLC, an Illinois limited liability company, was formed to establish an information technology consortium or cooperative servicing the Corporation and another health system. The Corporation's interest is 50%.
- TriLightNet, LLC, which was formed to manage a fiber optic network. Three Rivers Partners, LLC is the sole member.
- TriRivers Health Information Technology LLC, which was formed to manage a health information exchange network (HIE). Three Rivers Partners, LLC is the sole member.

Aggregate unaudited financial information relating to these investments is as follows as of and for the years ended June 30:

	2023	2022
Assets	\$ 25,465	\$ 29,497
Liabilities	7,645	9,379
Net (loss) income	(1,127)	2,290

The Corporation's investment in nonconsolidated affiliates totaled \$7,147 and \$8,022 at June 30, 2023 and 2022, respectively, and is included in investments in nonconsolidated affiliates and other assets on the consolidated balance sheets. The Corporation's interest in the (losses) earnings of nonconsolidated affiliates totaled \$(284) and \$791 for the years ended June 30, 2023 and 2022, respectively, which is included in other nonoperating income (expense) on the consolidated statements of operations and changes in net assets.

The Corporation passed through expenses to an affiliate for various operating expenses incurred on behalf of the affiliate totaling approximately \$626 and \$1,014 during the years ended June 30, 2023 and 2022, respectively. During the years ended June 30, 2023 and 2022, the Corporation purchased services of approximately \$5,474 and \$5,017, respectively, from one of its affiliates.

**Independent Auditor's Report on the Supplementary Information**

Board of Directors  
Regional Division, Inc.

We have audited the consolidated financial statements of Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division as of and for the years ended June 30, 2023 and 2022, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole.

The consolidating information is presented for purposes of additional analysis 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 audits 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, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*RSM US LLP*

Madison, Wisconsin  
October 25, 2023

**Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division**

**Consolidating Balance Sheet**  
**June 30, 2023**  
**(Dollars in Thousands)**

	Consolidated	Eliminations	Regional Division, Inc.	Swedish- American Health System Corporation and Subsidiaries
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 143,573	\$ -	\$ 1,659	\$ 141,914
Patient accounts receivable	79,028	-	-	79,028
Amounts due from third-party payors	5,930	-	-	5,930
Inventories	11,677	-	-	11,677
Prepaid expenses and other assets	10,895	-	10	10,885
<b>Total current assets</b>	<b>251,103</b>	<b>-</b>	<b>1,669</b>	<b>249,434</b>
Investments and assets limited as to use:				
Investments internally designated for self-insurance fund	10,874	-	-	10,874
Investments internally designated for deferred compensation agreements	4,961	-	-	4,961
Beneficial interest in investment pool	337,886	-	-	337,886
<b>Total investments and assets limited as to use</b>	<b>353,721</b>	<b>-</b>	<b>-</b>	<b>353,721</b>
Other assets:				
Insurance recoveries receivable	34,132	-	-	34,132
Beneficial interest in trust assets	4,639	-	-	4,639
Investments in nonconsolidated affiliates and other assets	7,705	-	1,498	6,207
Investment in affiliated corporation	-	(615,065)	615,065	-
<b>Total other assets</b>	<b>46,476</b>	<b>(615,065)</b>	<b>616,563</b>	<b>44,978</b>
Property and equipment, net	424,240	-	-	424,240
Operating lease right-of-use assets, net	24,369	-	-	24,369
Finance lease right-of-use assets, net	3,131	-	-	3,131
<b>Total assets</b>	<b>\$ 1,103,040</b>	<b>\$ (615,065)</b>	<b>\$ 618,232</b>	<b>\$ 1,099,873</b>

(Continued)

**Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division**

**Consolidating Balance Sheet (Continued)**

**June 30, 2023**

**(Dollars in Thousands)**

	Consolidated	Eliminations	Regional Division, Inc.	Swedish- American Health System Corporation and Subsidiaries
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Accounts payable	\$ 19,777	\$ -	\$ 24	\$ 19,753
Accrued expenses and other	95,058	-	-	95,058
Estimated settlements due to third-party payors	59,130	-	-	59,130
Current maturities of long-term debt	4,440	-	-	4,440
Current portion of operating lease liabilities	6,678	-	-	6,678
Current portion of finance lease liabilities	951	-	-	951
<b>Total current liabilities</b>	<b>186,034</b>	<b>-</b>	<b>24</b>	<b>186,010</b>
Noncurrent liabilities:				
Long-term debt, less current maturities	230,332	-	-	230,332
Operating lease liabilities, less current portion	18,338	-	-	18,338
Finance lease liabilities, less current portion	1,535	-	-	1,535
Self-insurance	43,632	-	-	43,632
Deferred compensation agreements	4,961	-	-	4,961
	<b>298,798</b>	<b>-</b>	<b>-</b>	<b>298,798</b>
<b>Total liabilities</b>	<b>484,832</b>	<b>-</b>	<b>24</b>	<b>484,808</b>
Net assets:				
Net assets without donor restrictions	610,258	(607,115)	610,258	607,115
Net assets with donor restrictions	7,950	(7,950)	7,950	7,950
<b>Total net assets</b>	<b>618,208</b>	<b>(615,065)</b>	<b>618,208</b>	<b>615,065</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,103,040</b>	<b>\$ (615,065)</b>	<b>\$ 618,232</b>	<b>\$ 1,099,873</b>

# Regional Division, Inc. and Subsidiary d/b/a UW Health Regional Division

## Consolidating Statement of Operations Year Ended June 30, 2023 (Dollars in Thousands)

	Consolidated	Eliminations	Regional Division, Inc.	Swedish- American Health System Corporation and Subsidiaries
Revenues without donor restrictions, gains and other support:				
Patient service revenue	\$ 610,774	\$ -	\$ -	\$ 610,774
Public Aid assessment revenue	95,083	-	-	95,083
Income from affiliated corporation and other revenue	63,067	(36,892)	36,896	63,063
Net assets released from restrictions—used for operating purposes	307	-	-	307
<b>Total revenues without donor restrictions, gains and other support</b>	<b>769,231</b>	<b>(36,892)</b>	<b>36,896</b>	<b>769,227</b>
Expenses:				
Salaries and employee benefits	397,513	-	-	397,513
Supplies, purchased services and rent	200,738	-	26	200,712
Professional fees	42,814	-	-	42,814
Management fees	4,368	-	-	4,368
Depreciation and amortization	30,708	-	-	30,708
Interest	7,491	-	-	7,491
Utilities	4,001	-	-	4,001
Repairs and maintenance	20,879	-	-	20,879
Insurance	12,669	-	-	12,669
Public Aid assessment expense	26,996	-	-	26,996
Other	11,583	-	-	11,583
<b>Total expenses</b>	<b>759,760</b>	<b>-</b>	<b>26</b>	<b>759,734</b>
<b>Operating income</b>	<b>9,471</b>	<b>(36,892)</b>	<b>36,870</b>	<b>9,493</b>
Nonoperating income (expense):				
Change in value of beneficial interest in investment pool	24,121	-	-	24,121
Investment income	2,460	-	-	2,460
Income tax benefit	24	-	-	24
Foundation activity, net	(284)	-	-	(284)
Other, net	1,078	-	-	1,078
<b>Total nonoperating income</b>	<b>27,399</b>	<b>-</b>	<b>-</b>	<b>27,399</b>
<b>Excess of revenue and gains over expenses and losses</b>	<b>\$ 36,870</b>	<b>\$ (36,892)</b>	<b>\$ 36,870</b>	<b>\$ 36,892</b>

SwedishAmerican Health System Corporation and Subsidiaries

Consolidating Balance Sheet

June 30, 2023

(Dollars in thousands)

	Consolidated	Eliminations	Swedish-American Hospital and Subsidiary	Swedish-American Health System Corporation	Swedish-American Health Foundation	Swedish-American Realty Corporation	State and Charles, Inc. and Subsidiaries
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 141,914	\$ -	\$ 139,418	\$ -	\$ -	\$ -	\$ 2,496
Patient accounts receivable	79,028	-	78,845	-	-	-	183
Amounts due from third-party payors	5,930	-	-	-	-	-	5,930
Inventories	11,677	-	11,676	-	-	-	1
Prepaid expenses and other assets	10,885	-	10,400	-	176	81	228
<b>Total current assets</b>	<b>249,434</b>	<b>-</b>	<b>240,339</b>	<b>-</b>	<b>176</b>	<b>81</b>	<b>8,838</b>
Investments and assets limited as to use:							
Investments internally designated for self-insurance fund	10,874	-	10,874	-	-	-	-
Investments internally designated for deferred compensation agreements	4,961	-	4,961	-	-	-	-
Beneficial interest in investment pool	337,886	-	324,867	-	13,019	-	-
<b>Total investments and assets limited as to use</b>	<b>353,721</b>	<b>-</b>	<b>340,702</b>	<b>-</b>	<b>13,019</b>	<b>-</b>	<b>-</b>
Other assets:							
Insurance recoveries receivable	34,132	-	34,132	-	-	-	-
Beneficial interest in trust assets	4,639	-	-	-	4,639	-	-
Due from affiliated organizations	-	(29,354)	21,553	-	-	7,801	-
Notes receivable and other assets	6,207	(46,999)	4,310	39,669	-	225	9,002
<b>Total other assets</b>	<b>44,978</b>	<b>(76,353)</b>	<b>59,995</b>	<b>39,669</b>	<b>4,639</b>	<b>8,026</b>	<b>9,002</b>
Property and equipment, net	424,240	-	411,168	-	1,856	11,096	120
Operating lease right-of-use assets, net	24,369	-	10,654	-	-	13,715	-
Finance lease right-of-use assets, net	3,131	-	3,129	-	-	-	2
<b>Total assets</b>	<b>\$ 1,099,873</b>	<b>\$ (76,353)</b>	<b>\$ 1,065,987</b>	<b>\$ 39,669</b>	<b>\$ 19,690</b>	<b>\$ 32,918</b>	<b>\$ 17,962</b>

SwedishAmerican Health System Corporation and Subsidiaries

Consolidating Balance Sheet

June 30, 2023

(Dollars in thousands)

	Consolidated	Eliminations	Swedish-American Hospital and Subsidiary	Swedish-American Health System Corporation	Swedish-American Health Foundation	Swedish-American Realty Corporation	State and Charles, Inc. and Subsidiaries
<b>Liabilities and Net Assets</b>							
Current liabilities:							
Accounts payable	\$ 19,753	\$ -	\$ 19,710	\$ -	\$ 2	\$ 37	\$ 4
Accrued expenses and other	95,058	-	92,418	-	195	269	2,176
Estimated settlements due to third-party payors	59,130	-	59,130	-	-	-	-
Current maturities of long-term debt	4,440	-	4,440	-	-	-	-
Current portion of operating lease liabilities	6,678	-	3,665	-	-	3,011	2
Current portion of finance lease liabilities	951	-	951	-	-	-	-
<b>Total current liabilities</b>	<b>186,010</b>	<b>-</b>	<b>180,314</b>	<b>-</b>	<b>197</b>	<b>3,317</b>	<b>2,182</b>
Noncurrent liabilities:							
Long-term debt, less current maturities	230,332	-	230,332	-	-	-	-
Operating lease liabilities, less current portion	18,338	-	7,634	-	-	10,704	-
Finance lease liabilities, less current portion	1,535	-	1,535	-	-	-	-
Self-insurance	43,632	-	43,632	-	-	-	-
Due to affiliated organizations	-	(29,354)	-	8,448	355	-	20,551
Deferred compensation agreements	4,961	-	4,961	-	-	-	-
	<b>298,798</b>	<b>(29,354)</b>	<b>288,094</b>	<b>8,448</b>	<b>355</b>	<b>10,704</b>	<b>20,551</b>
<b>Total liabilities</b>	<b>484,808</b>	<b>(29,354)</b>	<b>468,408</b>	<b>8,448</b>	<b>552</b>	<b>14,021</b>	<b>22,733</b>
Net assets:							
Net assets without donor restrictions	607,115	(51,770)	597,579	31,221	11,188	18,897	-
Net assets with donor restrictions	7,950	-	-	-	7,950	-	-
Capital stock	-	(133)	-	-	-	-	133
Additional paid-in capital	-	(46,866)	-	-	-	-	46,866
Retained earnings	-	51,770	-	-	-	-	(51,770)
<b>Total net assets</b>	<b>615,065</b>	<b>(46,999)</b>	<b>597,579</b>	<b>31,221</b>	<b>19,138</b>	<b>18,897</b>	<b>(4,771)</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,099,873</b>	<b>\$ (76,353)</b>	<b>\$ 1,065,987</b>	<b>\$ 39,669</b>	<b>\$ 19,690</b>	<b>\$ 32,918</b>	<b>\$ 17,962</b>



**SwedishAmerican Health System Corporation and Subsidiaries**

**Consolidating Statement of Operations**

**Year Ended June 30, 2023**

**(Dollars in thousands)**

	Consolidated	Eliminations	Swedish-American Hospital and Subsidiary	Swedish-American Health System Corporation	Swedish-American Health Foundation	Swedish-American Realty Corporation	State and Charles, Inc. and Subsidiaries
Revenues without donor restrictions, gains and other support:							
Patient service revenue	\$ 610,774	\$ (7,644)	\$ 618,418	\$ -	\$ -	\$ -	\$ -
Public Aid assessment revenue	95,083	-	95,083	-	-	-	-
Other revenue	63,063	(8,591)	45,928	-	-	7,374	18,352
Net assets released from restrictions - used for operating purposes	307	-	264	-	43	-	-
	<u>769,227</u>	<u>(16,235)</u>	<u>759,693</u>	<u>-</u>	<u>43</u>	<u>7,374</u>	<u>18,352</u>
Expenses:							
Salaries and employee benefits	397,513	30	394,781	1,162	-	-	1,540
Supplies, purchased services and rent	200,712	(14,994)	193,512	-	-	3,914	18,280
Professional fees	42,814	-	42,774	29	-	8	3
Management fees	4,368	(42)	3,207	-	-	42	1,161
Depreciation and amortization	30,708	-	28,931	-	2	1,738	37
Interest	7,491	-	7,467	-	-	-	24
Utilities	4,001	-	3,521	-	-	479	1
Repairs and maintenance	20,879	(1,179)	21,352	-	-	508	198
Insurance	12,669	-	12,586	-	-	68	15
Public Aid assessment expense	26,996	-	26,996	-	-	-	-
Other	11,583	-	10,942	37	-	529	75
	<u>759,734</u>	<u>(16,185)</u>	<u>746,069</u>	<u>1,228</u>	<u>2</u>	<u>7,286</u>	<u>21,334</u>
<b>Operating income (loss)</b>	<u>9,493</u>	<u>(50)</u>	<u>13,624</u>	<u>(1,228)</u>	<u>41</u>	<u>88</u>	<u>(2,982)</u>
Nonoperating income (expense):							
Change in value of beneficial interest in investment pool	24,121	-	23,419	-	702	-	-
Investment income	2,460	-	2,404	-	56	-	-
Income tax benefit	24	-	24	-	-	-	-
Foundation activity, net	(284)	50	-	-	(334)	-	-
Other, net	1,078	-	195	-	-	883	-
	<u>27,399</u>	<u>50</u>	<u>26,042</u>	<u>-</u>	<u>424</u>	<u>883</u>	<u>-</u>
<b>Revenue in excess of (less than) expenses</b>	<u>\$ 36,892</u>	<u>\$ -</u>	<u>\$ 39,666</u>	<u>\$ (1,228)</u>	<u>\$ 465</u>	<u>\$ 971</u>	<u>\$ (2,982)</u>