OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Table of Contents

KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors
OSF HealthCare System:

Opinion

We have audited the consolidated financial statements of OSF HealthCare System and its subsidiaries (the Company), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

KPMG LLP

Chicago, Illinois
December 21, 2023

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2023 and 2022

(In thousands)

Assets		**2023**	**2022**
Current assets:			
Cash and cash equivalents	$	284,355	261,428
Receivables:			
Patient and resident accounts receivable		532,107	473,578
Due from third party reimbursement programs		23,921	28,411
Other		51,676	31,464
Total receivables		607,704	533,453
Assets limited as to use		56,250	48,600
Inventory		84,579	78,358
Prepaid expense		32,323	36,614
Total current assets		1,065,211	958,453
Investments		1,848,854	1,873,062
Assets limited as to use, net of current portion		223,219	211,079
Property and equipment, net		2,076,203	1,983,478
Operating lease ROU assets		147,676	147,966
Assets with donor restrictions		183,361	169,325
Goodwill		64,951	63,403
Other assets		217,925	208,296
Total assets	$	5,827,400	5,615,062
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	39,242	39,500
Current portion of operating lease liability		27,128	25,829
Accounts payable and accrued expenses		444,127	487,503
Estimated third-party payor settlements		135,241	153,549
Estimated self-insurance liabilities		56,250	48,600
Total current liabilities		701,988	754,981
Long-term debt, net of current portion		1,708,330	1,706,195
Long-term operating lease liability, net of current portion		123,029	123,722
Accrued benefit liability		175,480	283,540
Estimated self-insurance liabilities, net of current portion		316,331	286,373
Other liabilities		115,034	110,866
Total liabilities		3,140,192	3,265,677
Net assets:			
Net assets without donor restrictions:			
Net assets without donor restrictions of OSF		2,433,714	2,122,687
Noncontrolling interests in subsidiaries		70,133	57,373
Total net assets without donor restrictions		2,503,847	2,180,060
Net assets with donor restrictions		183,361	169,325
Total net assets		2,687,208	2,349,385
Total liabilities and net assets	$	5,827,400	5,615,062

See accompanying notes to consolidated financial statements.

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions

Years ended September 30, 2023 and 2022

(In thousands)

	2023	2022
Net patient service revenues	$ 3,885,552	3,586,931
Other revenues:		
Contributions	4,381	3,322
Other	192,900	220,710
Net assets released from restrictions used for operations	10,787	13,209
Total revenues	4,093,620	3,824,172
Expenses:		
Salaries and benefits	2,224,107	2,075,128
Sisters' evaluated services	1,419	1,763
Professional fees	374,697	422,254
Supplies	629,356	601,090
Purchased services and other	667,003	657,370
Depreciation and amortization	137,473	134,160
Interest	58,374	47,396
Total expenses	4,092,429	3,939,161
Income (loss) from operations	1,191	(114,989)
Nonoperating gains (losses):		
Investment return	209,277	(511,202)
Income taxes	(4,702)	(4,879)
Net settlement of derivative instruments	(1,456)	(6,742)
Change in fair value of derivative instruments	6,696	30,413
Contribution of excess assets over liabilities	1,385	—
Other	(8,406)	(13,022)
Total nonoperating gains (losses), net	202,794	(505,432)
Net income (loss)	203,985	(620,421)
Other changes in net assets without donor restrictions:		
Net assets released from restrictions used for the purchase of property and equipment	3,406	6,425
Transfer from (to) affiliate	1,200	(800)
Recognition of change in pension funded status	104,907	151,828
Net contributions from noncontrolling shareholders and other	10,289	36,261
Change in net assets without donor restrictions	$ 323,787	(426,707)

See accompanying notes to consolidated financial statements.

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2023 and 2022

(In thousands)

		2023	2022
Net assets without donor restrictions:			
Net income (loss)	$	203,985	(620,421)
Other changes in net assets without donor restrictions:			
Net assets released from restrictions used for the purchase of property and equipment		3,406	6,425
Transfer from (to) affiliate		1,200	(800)
Recognition of change in pension funded status		104,907	151,828
Net contributions from noncontrolling shareholders and other		10,289	36,261
Change in net assets without donor restrictions		323,787	(426,707)
Net assets with donor restrictions:			
Contributions		17,500	16,038
Investment return		10,729	(17,085)
Net assets released from restrictions		(14,193)	(19,634)
Change in net assets with donor restrictions		14,036	(20,681)
Change in net assets		337,823	(447,388)
Net assets, beginning of year		2,349,385	2,796,773
Net assets, end of year	$	2,687,208	2,349,385

See accompanying notes to consolidated financial statements.

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2023 and 2022

(In thousands)

		2023	2022
Cash flows from operating activities:			
Change in net assets	$	337,823	(447,388)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Gain from equity basis investments		(5,709)	(8,472)
Distributions from equity basis investments		4,120	4,950
Amortization of bond issue costs and premiums/discounts included in interest expense		(6,665)	(6,848)
Change in fair value of derivative instruments		(6,696)	(30,413)
Change in fair value of trading securities		(164,274)	622,762
Net realized gains on investments		(18,858)	(61,654)
Net contributions from noncontrolling shareholders and other		(10,289)	(36,261)
Depreciation and amortization		137,473	134,160
Amortization of ROU assets		23,035	10,156
Donor restricted contributions and investment return		(28,229)	1,047
Net assets with donor restrictions released from restrictions used for operations		10,787	13,209
Recognition of change in pension funded status		(104,907)	(151,828)
Net periodic pension cost		4,635	8,031
Contributions to pension plans		(5,495)	(8,835)
Changes in assets and liabilities:			
Patient and resident accounts receivable		(57,328)	31,092
Due from third party reimbursement programs		4,490	(6,235)
Other receivables		(20,212)	345
Inventory		(5,983)	(1,199)
Prepaid expense		4,291	(6,367)
Operating and financing lease ROU assets		(20,289)	(25,140)
Other assets		8,892	(656)
Operating lease liability		(3,355)	14,318
Other liabilities		8,571	(99,915)
Accounts payable and accrued expenses		(48,414)	(54,252)
Estimated third-party payor settlements		(18,308)	(174,888)
Estimated self-insurance liabilities		37,608	75,493
Net cash provided by (used in) operating activities		56,714	(204,788)
Cash flows from investing activities:			
Acquisition of property and equipment		(224,071)	(330,404)
Asset/stock purchase of affiliates		(7,799)	(1,305)
Change in assets with donor restrictions		(14,036)	20,681
Gross purchases of retirement plan assets		(31,109)	(61,450)
Gross sales of retirement plan assets		19,492	76,326
Cash received from acquisitions		6,279	—
Gross purchases of investments		(4,372,911)	(4,789,243)
Gross proceeds from the sale of investments		4,560,461	5,009,729
Net cash used in investing activities		(63,694)	(75,666)
Cash flows from financing activities:			
Donor restricted contributions and investment return		28,229	(1,047)
Net assets with donor restrictions released from restrictions used for operations		(10,787)	(13,209)
Net contributions from noncontrolling interests		10,289	36,261
Proceeds from issuance of long-term debt, including premium		41,435	21,420
Draws on line of credit		—	50,000
Principal payments on finance lease liabilities		(9,108)	(9,440)
Repayment of long-term debt		(30,151)	(58,815)
Net cash provided by financing activities		29,907	25,170
Net change in cash and cash equivalents		22,927	(255,284)
Cash and cash equivalents:			
Beginning of year		261,428	516,712
End of year	$	284,355	261,428

(Continued)

OSF HEALTHCARE SYSTEM AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2023 and 2022

(In thousands)

		2023	2022
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of amounts capitalized	$	74,398	63,828
Cash paid for income taxes		1,808	7,539
ROU assets obtained in exchange for financing lease liabilities		5,460	17,039
Noncash transactions associated with the consolidated and deconsolidated joint venture entities and acquisitions:			
Patient accounts receivable	$	1,201	—
Inventory		238	—
Property and equipment		6,113	—
Operating lease ROU assets		1,899	—
Goodwill		1,715	—
Other assets		(562)	—
Accounts payable and accrued expenses		(5,038)	—
Operating lease liability		(3,961)	—

See accompanying notes to consolidated financial statements.

(1) Organization

OSF HealthCare System (OSF) is an Illinois not-for-profit corporation incorporated in 1880 as The Sisters of the Third Order of St. Francis. OSF's current name was adopted as part of a corporate restructuring in 1989, at which time a new Illinois not-for-profit corporation known as The Sisters of the Third Order of St. Francis (the Parent) was incorporated by a religious congregation of the Roman Catholic Church having the same name. The Parent is the sole member of OSF and OSF HealthCare Foundation (the Foundation). OSF currently owns and operates 15 acute care hospitals and other healthcare-related entities. OSF operates the following 13 of its healthcare facilities as a single corporation, with each healthcare facility functioning as an operating division of OSF:

OSF St. Francis Hospital, Escanaba, Michigan (SFH)
OSF Saint Anthony Medical Center, Rockford, Illinois (SAMC)
OSF Saint James-John W. Albrecht Medical Center, Pontiac, Illinois (SJJWAMC)
OSF St. Joseph Medical Center, Bloomington, Illinois (SJMC)
OSF Saint Francis Medical Center, Peoria, Illinois (SFMC)
OSF St. Mary Medical Center, Galesburg, Illinois (SMMC)
OSF Holy Family Medical Center, Monmouth, Illinois (HFMC)
OSF Saint Luke Medical Center, Kewanee, Illinois (SLMC)
OSF Saint Anthony Health Center, Alton, Illinois (SAHC)
OSF Heart of Mary Medical Center, Urbana, Illinois (HMMC)
OSF Sacred Heart Medical Center, Danville, Illinois (SHMC)
OSF Little Company of Mary Medical Center, Evergreen Park, Illinois (LCMMC)
OSF Saint Clare Medical Center, Princeton, Illinois (SCMC)

OSF has two hospitals, which are wholly owned subsidiaries – Ottawa Regional Hospital and Healthcare Center and Subsidiaries (d/b/a OSF Saint Elizabeth Medical Center (SEMC)) in Ottawa, Illinois, and Mendota Community Hospital (d/b/a OSF Saint Paul Medical Center (SPMC) in Mendota, Illinois. Together, these 15 hospitals are referred to as the Providers herein. In addition to the Providers, the consolidated financial statements include the activities of OSF Home Care Services, OSF Ministry Services, OSF Ventures, Jump Trading Simulation & Education Center, and OSF's wholly owned subsidiaries: Pointcore, Inc., OSF Lifeline Ambulance, LLC, Illinois Pathologists Services, LLC, Southwest Health Systems, Inc., and OSF Multi-Specialty Group (OSF MSG). OSF OnCall is a digital health entity, which includes digital platforms and software to connect people with care 24 hours a day, and is a wholly owned subsidiary of OSF MSG.

OSF Lifeline Ambulance, LLC (Lifeline) is an Illinois limited liability corporation that commenced operations on October 1, 2003 to provide emergency ground transportation services. OSF sold the assets of Lifeline on October 4, 2022 but maintained the legal entity and is in the process of collecting the accounts receivable. As part of the transaction, OSF was required to cease provision of ambulance transportation services and to change its name. OSF Lifeline Ambulance, LLC was changed to OSF Emergency Transport, LLC.

PCI (formerly known as SFI) is an Illinois for-profit corporation incorporated in 1986 and is engaged in the following lines of business: retail pharmacies, mobile medical systems, durable medical equipment, home therapeutics, real estate rental, bio-medical equipment services, and equipment technology services. PCI also participates in various health-related joint ventures and is the sole corporate member of OSF Aviation, LLC, OSF Assurance Company, OSF Finance Company LLC (OSFFC), and 124 Adams Property Management, LLC. OSF Aviation, LLC is an Illinois limited liability corporation formed on January 28, 2002 for the purpose of acquiring and operating emergency medical equipped helicopters in support of the trauma services programs of SFMC and SAMC. OSF Assurance Company is a Vermont general corporation incorporated on December 8, 2004 and organized for the purpose of writing insurance and reinsurance as a captive insurance company. OSFFC, an Illinois limited liability company, was organized in November 2007 to be a nominal issuer of taxable corporate notes or other debt instruments used to finance certain capital expenditures that would not be eligible for tax-exempt financing. OSF is not a borrower, obligor, or guarantor of any indebtedness issued by OSFFC.

PCI formed 124 Adams Property Management, LLC (Management) on December 7, 2017, the sole purpose of which is to manage 124 Adams Property Holdings, LLC (Holdings). Holdings was formed on December 11, 2017. The operating agreement of Holdings was effective December 28, 2017 between Management, as the managing member, and Caterpillar, Inc., as the investor member. Management owns 1% and Caterpillar, Inc. owns 99% of Holdings. Holdings was formed as a collaborative between OSF and Caterpillar, Inc. to completely renovate a historic building located at 124 Adams Street in Peoria, Illinois with the utilization of federal and state historic tax credits. 124 Adams State Investment, LLC (State Investment) was formed on November 16, 2021. State Investment was formed as a collaborative between PCI as a 1% owner and two Missouri limited liability companies as 49.5% owners each for the sole purpose of indirectly investing in the historic building renovation project and utilization of the state historic tax credits.

PCI has a 50% joint venture agreement with a large construction company. Pointcore Construction, LLC was formed on May 6, 2019. The sole purpose of the Pointcore Construction, LLC joint venture is to align OSF's construction needs with a single partner, which will allow OSF to assure consistent adherence to quality standards and better cost controls.

OSF owns 50% or more and has control in the following joint venture entities, which are consolidated in OSF's financial statements:

The Center for Health Ambulatory Surgery Center, LLC (CHASC) was formed in 2007 to establish and operate a multispecialty ambulatory surgical center in Peoria, Illinois. SFMC has a 59.78% controlling interest in CHASC as of September 30, 2023 and 2022.

Fort Jesse Imaging Center, LLC (FJIC) was formed in 2002 to establish and operate a medical imaging center in Bloomington, Illinois. SJMC has a 50.14% controlling interest in FJIC as of September 30, 2023 and 2022.

Eastland Medical Plaza SurgiCenter, LLC (EMPS) was formed in 2000 to establish and operate an ambulatory surgery treatment center in Bloomington, Illinois. SJMC has a 56.58% controlling interest in EMPS as of September 30, 2023 and 2022.

(In thousands)

Fox River Cancer Center (FRCC) was formed in 2007 to establish and operate a cancer treatment center in Ottawa, Illinois. SEMC has an 82% controlling interest in FRCC as of September 30, 2023 and 2022.

OSF HealthCare Transitional Care Hospital (TCH) was formed in 2021 to establish and operate an inpatient rehabilitation and long-term acute care hospital in Peoria, Illinois. SFMC has a 75% controlling interest in TCH as of September 30, 2023 and 2022. On October 1, 2023, OSF purchased the remaining 25% and is now the sole owner of the operations.

OnCall Imaging, LLC was formed in 2022 to provide medical imaging services in the communities in which the retail imaging centers are located. OSF OnCall has a 51% controlling interest in OnCall Imaging, LLC as of September 30, 2023.

Olympian Surgical Suites, LLC (OSS) was established to operate an ambulatory surgical center in Urbana, Illinois. On June 30, 2023, HMMC purchased 75% controlling interest of OSS.

The following represents a reconciliation of beginning and ending balances of OSF's interest and the noncontrolling interests for each class of net assets for which a noncontrolling interest exists during the years ended September 30, 2023 and 2022:

		Net assets without donor restriction		
		Total	Controlling interest	Noncontrolling interest
Balance at September 30, 2021	$	2,606,767	2,589,354	17,413
Net (loss) income		(620,421)	(624,120)	3,699
Transfer to affiliate		(800)	(800)	—
Net assets released from restrictions used for the purchase of property and equipment		6,425	6,425	—
Recognition of change in pension funded status		151,828	151,828	—
Net contributions from noncontrolling shareholders and other		36,261	—	36,261
Balance at September 30, 2022		2,180,060	2,122,687	57,373
Net income		203,985	201,514	2,471
Transfer from affiliate		1,200	1,200	—
Net assets released from restrictions used for the purchase of property and equipment		3,406	3,406	—
Recognition of change in pension funded status		104,907	104,907	—
Net contributions from noncontrolling shareholders and other		10,289	—	10,289
Balance at September 30, 2023	$	2,503,847	2,433,714	70,133

(In thousands)

The accompanying consolidated financial statements do not include the accounts of the Parent and the Foundation. The Foundation is an Illinois not-for-profit corporation, created to promote, encourage, and solicit, as well as receive and accept funds in support of the purposes and functions of OSF and the Parent by establishing a council at each of OSF's provider locations. It is the responsibility of the Foundation staff to develop and implement sound, practical, fund-raising strategies and tactics, the ultimate goal of which is to produce philanthropic support for the various OSF facilities. All funds collected and pledges received are done on behalf of the various OSF facilities and, therefore, shown as due to affiliates by the Foundation. OSF recognizes its net interest in the net assets of the Foundation based on contributions and pledges received by the Foundation on its behalf. The Foundation is a controlled subsidiary of the Parent and, therefore, is not required to be consolidated in the accompanying consolidated financial statements.

Summarized financial information of the Foundation for the years ended September 30, 2023 and 2022 is as follows:

		2023	2022
Cash, investments, pledges, and other	$	329,405	296,097
Accounts payable, due to affiliates, and other		9,995	3,801
Assets without donor restrictions		142,359	129,019
Assets with donor restrictions		177,051	163,277
Cash transfers to OSF during the year		18,796	13,799

Amounts due from the Foundation recognized at September 30, 2023 and 2022 consist of $7,932 and $1,924, respectively, in other receivables; $142,359 and $129,019, respectively, in investments; and $177,051 and $163,277, respectively, in assets with donor restrictions in the accompanying consolidated balance sheets.

The Foundation has established an investment policy that is reviewed annually by the board of directors of the Foundation.

Expenses included in the accompanying consolidated financial statements relate primarily to the provision of healthcare services and general and administrative costs. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are classified as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains or losses. Nonoperating gains or losses include investment return unless restricted by donors, income taxes, settlement and change in fair value of derivative instruments, loss on early extinguishment of debt, contributions of excess assets over liabilities and other items.

All significant intercompany transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

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

(b) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less when purchased, except amounts shown as assets limited as to use, investments (including amounts held at the Foundation), and assets with donor restrictions. These investments are considered cash. Cash equivalents held by investment managers are treated as an investing activity in the consolidated statement of cash flows.

(c) Investments and Investment Return

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. OSF has elected to include in investments, cash and cash equivalents held temporarily by a custodian for investment purposes in accordance with ASC 958-210, *Not-for-Profit Entities-Other Presentation Matters*.

Investment return or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is reported as nonoperating gains or losses in the accompanying consolidated statements of operations and changes in net assets without donor restrictions, unless the income or loss is restricted by donor or law. Management considers all investments to be trading securities and maintains cash equivalents as part of the investment strategy and overall investing policy.

(d) Assets Limited as to Use

Assets limited as to use include amounts held by the bond trustee for payment of principal, interest, and acquisition and construction of equipment and facilities, as defined in the loan agreement, along with designated assets set aside for self-insurance of medical malpractice, unemployment compensation, and workers’ compensation. Amounts required to meet current liabilities have been classified as current assets. OSF has elected to include in assets limited as to use, cash and cash equivalents held temporarily by a custodian for investment purposes in accordance with ASC 958-210.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

(f) Other Assets – Joint Ventures

OSF and certain subsidiaries have investments in organizations that are not majority owned or controlled by OSF organizations. OSF and its subsidiaries account for their investments in these organizations using the cost or equity method of accounting. The equity method of accounting is discontinued when investment is reduced to zero unless OSF and its subsidiary have guaranteed the obligations of the organization, are committed to provide additional capital support, or when ownership changes with control take place.

Investments in organizations using the equity method of accounting are reflected as a component of other assets in the accompanying consolidated balance sheets. The related earnings (losses) are included in other operating revenues in the consolidated statements of operations and changes in net assets without donor restrictions.

(g) Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed primarily using the straight-line method. Included in property and equipment are leasehold improvements that are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the improvement. Net 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. Interest costs are not capitalized if the capital assets are acquired using donor-restricted funds.

Gifts of long-lived assets such as land, building, or equipment are reported at fair market value at the time of the donation and are excluded from income from operations and nonoperating gains, net over expenses. Gifts of long-lived assets and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(h) Long-Lived Assets

OSF periodically assesses the recoverability of long-lived assets (including property, plant, and equipment) when indications of potential impairment, based on estimated, undiscounted future cash flows exist. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining whether there is an impairment of the asset. An impairment loss would be recorded in the period such determination is made based on the fair value of the related entity. No impairment losses were recorded for the years ended September 30, 2023 and 2022.

(i) Leases

OSF adopted ASC Topic 842 on October 1, 2020. OSF is a lessee in several noncancellable (1) operating leases, primarily for office space, transportation, medical, and office equipment, and (2) finance leases, for certain transportation and office equipment.

OSF accounts for leases in accordance with ASC Topic 842, *Leases*. OSF determines if an arrangement is or contains a lease at contract inception. OSF recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid payments at the lease commencement date. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases and is subsequently measured at amortized cost using the effective-interest method.

Key estimates and judgments include how OSF determines the following: (1) the discount rate it uses to discount the unpaid lease payments to present value; (2) lease term; and (3) lease payments.

- ASC Topic 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Generally, OSF cannot determine the interest rate implicit in the lease because it does not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, OSF generally uses its incremental borrowing rate as the discount rate for the lease. OSF's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. Because OSF does not generally borrow on a collateralized basis, it uses the interest rate it pays on its noncollateralized borrowings as an input to deriving an appropriate incremental borrowing rate, adjusted for the amount of the lease payments, the lease term, and the effect on that rate of designating specific collateral with a value equal to the unpaid lease payments for that lease.
- The lease term for all OSF's leases includes the noncancelable period of the lease plus any additional periods covered by either an OSF option to extend (or not to terminate) the lease that OSF is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor.
- Lease payments included in the measurement of the lease liability comprise the following:
  - Fixed payments, including in-substance fixed payments, owed over the lease term (which includes termination penalties OSF would owe if the lease term assumes OSF's exercise of a termination option).
  - Variable lease payments that depend on an index or rate, initially measured using the index or rate at the lease commencement date.
  - Amounts expected to be payable under an OSF-provided residual value guarantee.
  - The exercise price of an OSF option to purchase the underlying asset if OSF is reasonably certain to exercise the option.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For finance leases, the ROU asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term unless the lease transfers ownership of the underlying asset to OSF or OSF is reasonably certain to exercise an option to purchase the underlying asset. In those cases, the ROU asset is amortized over the useful life of the underlying asset. Amortization of the ROU asset is recognized and presented separately from interest expense on the lease liability.

Variable lease payments associated with OSF's leases are recognized when the event, activity, or circumstances in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented as operating expense in OSF's consolidated statements of operations and changes in net assets without donor intent in the same line item as expense arising from fixed lease payments (operating leases) or interest expense of the ROU asset (finance leases).

ROU assets for operating and finance leases are periodically reduced by impairment losses. OSF uses the long-lived assets impairment guidance in ASC Subtopic 360-10, *Property, Plant, and Equipment – Overall*, to determine whether an ROU asset is impaired, and if so, the amount of the impairment loss to recognize. No impairment losses were recognized during fiscal years ended September 30, 2023 and 2022.

OSF monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance in profit or loss.

Operating lease ROU assets are presented as operating lease ROU assets on the consolidated balance sheets. The current portion of operating lease liabilities is included in other current liabilities and the long-term portion is presented separately as operating lease liabilities on the consolidated balance sheets. Finance lease ROU assets are included in property, plant, and equipment. The current portion of finance lease liabilities is included in current portion of long-term debt, and the long-term portion is included in long-term debt, net of current portion on the consolidated balance sheets.

OSF has elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less. OSF has elected not to apply the short-term lease recognition and measurement exemption for other classes of leased assets. OSF recognizes the lease payments associated with its short-term leases as an expense on the straight-line basis over the lease term. Variable lease payments associated with these leases are recognized and presented in the same manner as for all other OSF leases.

(j) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-08, *Testing Goodwill for Impairment*, which provides an entity the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required.

(In thousands)

If the two-step goodwill impairment test is required, first, the fair value of the reporting unit is compared with its carrying amount (including goodwill). If the fair value of the reporting unit is less than its carrying amount, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying amount, step two does not need to be performed.

OSF has determined the proper reporting unit for goodwill is the consolidated OSF entity unless the goodwill is related to a joint venture, in which case the reporting unit is the joint venture. OSF performs its annual impairment review of goodwill at September 30 and when a triggering event occurs between annual impairment tests. At September 30, 2023 and 2022, OSF performed a qualitative assessment of goodwill and determined that it is not more likely than not that the fair values of its reporting units are less than the carrying amounts. Accordingly, no impairment loss was recorded in 2023 or 2022.

The composition of goodwill at September 30, 2023 and 2022 is set forth in the following table:

	2023	2022
OSF	$ 44,633	44,261
Joint ventures	20,318	19,142
	$ 64,951	63,403

(k) Net Assets

Net assets and activities are classified into two classes based upon the existence or absence of donor-imposed restrictions: net assets without donor restrictions and net assets with donor restrictions. Assets with donor restrictions are those whose use has been limited by the donors to a specific time period or purpose or restricted by donors to be maintained by OSF in perpetuity.

(l) Donor Restricted Gifts

Unconditional promises to give cash and other assets to OSF are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are reported as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions in the consolidated statements of operations and changes in net assets. In the absence of a donor specification that restricts income and gains on restricted gifts, such income and gains are reported as income of net assets without donor restrictions. In order to protect permanently restricted gifts from a loss of purchasing power, OSF uses a spending rate policy to determine the portion of investment return that can be used to support operations of the current period.

OSF reports gifts of equipment or other long-lived assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, OSF reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(m) Net Income (Loss)

The consolidated statements of operations and changes in net assets without donor restrictions include a performance indicator, net income (loss). Changes in net assets without donor restrictions, which are excluded from net income, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions that were used for the purpose of acquiring such assets by donor restriction), recognition of change in pension funded status, net asset transfers to and from affiliates, and net contributions from noncontrolling shareholders and other.

(n) Net Patient Service Revenue

OSF has agreements with third-party payors that provide for payments to OSF at amounts different from its established rates. Payment arrangements include prospectively determined rates-per-discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(o) Other Operating Revenue

Other operating revenue includes income from rental income, grant revenue, joint venture activity, risk contract revenue, Coronavirus Aid, Relief, and Economic Security Act (CARES Act) revenue grant income, and other miscellaneous revenue. Revenue from grants is recognized in accordance with ASC Subtopic 958-605, *Not-for-Profit Entities – Revenue Recognition*, as other operating revenue, when the conditions of the contributions are substantially met. Revenue from non-grant sources is generally recognized at point of service for transactions in accordance with ASC Topic 606, *Revenue from Contracts with Customers*.

(Continued)

(p) Financial Assistance

OSF provides care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than its established rates. Because OSF does not pursue collection of amounts determined to qualify as financial assistance, they are not reported as revenue. There were no significant changes to the financial assistance policy during the fiscal year.

(q) Estimated Self-Insurance Liabilities

The provisions for estimated self-insured medical malpractice, workers' compensation, health and dental, and unemployment claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported. OSF reports the amount predicted to settle within one year as the current portion of the estimated self-insurance liabilities with the corresponding investments held as current portion of assets limited as to use. The long-term portion is reported as estimated self-insurance liabilities with the corresponding investments held as assets limited as to use.

(r) Services Provided by the Religious Community

Services provided by the individuals in the religious community are recorded as expense at lay-equivalent values.

(s) Derivative Instruments

OSF accounts for derivatives and hedging activities in accordance with ASC Subtopic 815-10, *Derivatives and Hedging – Overall*, as amended, which requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those instruments at fair values. OSF and PCI are involved in various interest rate swap programs. The fair values of the interest rate swap programs are included as a component of the other liabilities in the accompanying consolidated balance sheets. The derivatives are not designated as hedge instruments, and therefore, the change in fair value of the interest rate swap is recorded as a component of nonoperating (losses) gains – change in fair value of derivative instruments in the period of change, as well as net settlement of derivative instruments.

(t) Income Taxes

OSF is a not-for-profit corporation as described by Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

PCI and various subsidiaries are for-profit corporations that recognize income taxes under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(Continued)

Under ASC Subtopic 740-10, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*, OSF and PCI must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. As of September 30, 2023 or 2022, OSF and PCI do not have any uncertain tax positions.

(u) Fair Value

OSF adopted the provisions of ASC Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In conjunction with the adoption of ASC Topic 820, OSF adopted the measurement provisions for investments in funds that do not have readily determinable fair values, including domestic and foreign mutual funds and commingled funds. This guidance amended ASC Topic 820 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value (NAV) per share or its equivalent.

(3) COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient activity and related revenues for most services were significantly impacted starting in mid-March 2020, as various policies were implemented by federal, state, and local governments in response to the COVID-19 pandemic.

In March 2020, the CARES Act was signed into law, providing temporary and limited relief to hospitals during the COVID-19 outbreak. Under the CARES Act, appropriations were made for hospitals to cover expenses and lost revenue associated with the treatment of COVID-19 patients, the Medicare Accelerated and Advanced payment program was expanded, employee retention tax credits to employers affected by COVID-19 were provided, the 2% reduction in Medicare payments from sequestration through December 2021 has been eliminated, add-on payments for inpatient hospitals treating COVID-19 patients were created, and a reduction in Medicaid funding for Medicare disproportionate share hospitals was delayed.

For the year ended September 30, 2023, OSF did not receive or recognize any CARES Act funds. For the year ended September 30, 2022, OSF received $4,617 in general distributions and $26,960 in high-impact, targeted distributions under the CARES Act, as well as a related grant from the State of Illinois in the amount of $15,755. These funds are not subject to repayment, provided OSF is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants and are recognized on a systematic and rational basis as other revenue once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on analysis of the compliance and reporting requirements of the CARES Act and the impact of the pandemic on operating results, for the year ended September 30, 2022, OSF has recorded $47,332 as other operating revenue in the consolidated statements of operations and changes in net assets without donor restrictions.

In addition, OSF received $312,867 of accelerated Medicare payments under the Medicare Advanced Payment Program (APP) during fiscal year 2020. To repay the APP funds, Medicare automatically recouped Medicare payments otherwise owed to OSF each month between April 2021 and October 2022, with all funds being fully recouped as of September 30, 2023.

The CARES Act also provided for a deferral of payments of the employer portion of social security payroll tax incurred during the pandemic, allowing half of such payroll taxes to be deferred until December 2021 and the remaining half until December 2022. As of September 30, 2023 and 2022, $0 and $27,936, respectively, of the deferral is recorded as a component of accounts payable and accrued expenses on the consolidated balance sheets. As of September 30, 2023, all deferred payroll taxes have been repaid by OSF.

Additionally, the CARES Act provides for a payroll tax credit designed to encourage retention of employees during the pandemic. As of September 30, 2023 and 2022, OSF received $4,125 and $0, respectively, in payroll tax credits.

During the year ended September 30, 2023, OSF received $32,333 as a Hospital Pandemic Recovery Stabilization payment from Illinois Healthcare and Family Services. This payment was recognized as a component of net patient service revenues in the accompanying 2023 consolidated financial statements. No such funds were received or recognized in 2022.

During the year ended September 30, 2023, OSF recognized $8,800 from the Federal Emergency Management Agency for personal protective equipment utilized for COVID-19 response. This funding was recognized as a component of other revenues in the accompanying 2023 consolidated financial statements. No such funds were received or recognized in 2022.

(4) Net Patient and Resident Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which OSF expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (managed care and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. Performance obligations satisfied over time relate to inpatient acute care services. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and OSF does not believe it is required to provide additional goods or services to the patient. Performance obligations for patients that are in-house at period-end generally complete within days or possibly weeks of period-end and, therefore, are estimated on a pro rata basis.

OSF determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with OSF's policy, and/or implicit price concessions provided to uninsured patients. Estimates of contractual adjustments and discounts are based on contractual agreements, its discount policy (or policies), and historical experience. Estimate of implicit price concessions are based on its historical collection experience with this class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

(a) Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Inpatient nonacute services and certain outpatient services are paid based upon a cost-reimbursement method, established fee screens, or a combination thereof. OSF is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by OSF and audits by the Medicare fiscal intermediary. Certain outpatient services are reimbursed at a prospectively determined rate per service based upon their ambulatory payment classification.

As of September 30, 2023, Medicare cost reports have been audited and final-settled through September 30, 2019 for all hospitals except SAMC. Medicare cost reports have been audited and final settled through September 30, 2020 for SLMC, SAHC, HFMC, SEMC, SPMC, and SHMC. In addition, Medicare cost reports have been audited and final settled for LCMMC for the FYE January 31, 2020 and for SCMC for the FYE April 30, 2020. Medicare cost reports have been audited and final settled through September 30, 2021 for SLMC and HFMC. Various re-opening letters have been received for certain providers in the normal course of review by the intermediaries.

OSF participates in various shared risk programs. OSF shares risk with the Centers for Medicare and Medicaid Services (CMS) for the cost of providers through the Medicare Shared Savings Program (MSSP) and Advanced Alternative Payment Models (APMs) during fiscal years 2022 and 2023. APMs are a track of the Quality Payment Program that offers a 5% incentive for achieving threshold levels of payments or patients through APMs.

As of September 30, 2023 and 2022, OSF has recorded a receivable of $40,431 and $30,871, respectively, for outstanding risk contracts, which is included as a component of due from third-party reimbursement programs in the accompanying consolidated balance sheets. During 2023 and 2022, risk contract activity resulted in other revenue of $43,799 and $31,166, respectively, recorded in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

(b) Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed upon per-visit rates. Medicaid payment methodologies and rates for services are based on the amount of funding available to the State of Illinois Medicaid program.

The Illinois Hospital Assessment Program and the Enhanced Illinois Hospital Assessment Program (collectively referred to herein as HAP) have been approved by CMS through December 31, 2026. Under HAP, the state receives additional federal Medicaid funds for the state's healthcare system, administered by the Illinois Department of Healthcare and Family Services. OSF participates in all State of Illinois Hospital Assessment programs. OSF has included its reimbursement from the HAP for the years ended September 30, 2023 and 2022 of $277,498 and $248,644, respectively, within net patient service revenue in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

OSF included its related assessment tax payments of $131,662 and $105,938 for the years ended September 30, 2023 and 2022, respectively, within supplies and other expense in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

(c) Other

OSF has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to OSF under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates. OSF shares risk and receives bonuses for a portion of its contracts with managed care payors.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to interpretation. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge OSF's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon OSF. In addition, contracts with commercial payors also provide for retroactive audit and review of claims.

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 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 (i.e., new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. During 2023 and 2022, changes to prior year variable consideration resulted in an increase of net patient service revenue of $17,749 and $9,321, respectively, due to appeals, cost report settlements, and other adjustments to prior year, exclusive of the amounts related to the aforementioned Medicaid program.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. OSF also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. OSF estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any 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 the change.

(In thousands)

OSF provides care to patients regardless of their ability to pay. Therefore, OSF has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (e.g., co-pays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts OSF expects to collect based on its collection history with those patients.

Patients who meet OSF's criteria for financial assistance are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as financial assistance are not reported as revenue.

Net patient service revenue, net of explicit allowances and discounts (but before implicit price concessions) recognized in the period by major payor is as follows:

	2023	2022
Medicare	36 %	36 %
Medicaid	21	18
Managed care and commercial	42	44
Self-pay	1	2
Net patient service revenues	100 %	100 %

Patient service revenue recognized in the period by type of service is as follows:

		2023	2022
Inpatient	$	1,567,946	1,483,357
Outpatient/ambulatory care		1,956,785	1,727,714
Clinic and other		360,821	375,860
	$	3,885,552	3,586,931

OSF grants credit without collateral to its patients and residents, most of whom are local residents and are insured under third-party payor arrangements. OSF values these receivables using historical collection on enacted rates at the time of the estimate. The mix of net patient accounts receivables by major payor at September 30 consists of the following:

(In thousands)

	2023	2022
Medicare	29 %	28 %
Medicaid	19	16
Managed care and commercial	42	45
Self-pay	10	11
	100 %	100 %

(5) Financial Assistance

OSF affirms and maintains its commitment to serve its communities in a manner consistent with the philosophy of OSF and the Parent. The philosophy is that adequate access to healthcare is a basic human right for all. OSF is committed to the promotion, preservation, protection, and restoration of wellness, whenever possible. OSF's services are provided to all persons with compassion and regardless of a patient's financial resources. To support this statement, the costs (determined using an estimated current year Medicare cost-to-charge ratio) incurred for services and supplies furnished under OSF's financial assistance policy aggregated $43,613 and $51,471 in 2023 and 2022, respectively. Not included in these amounts are benefits provided to the poor through the unpaid cost of Medicaid and other public programs. Additional other benefits provided are for the broader community that represents the unpaid cost of health education, research, and other community health services responding to a special need in the communities that OSF serves.

(6) Investments and Fair Value Measurement

(a) Overall Investment Objective

The overall investment objective of OSF is to invest its assets in a prudent manner that will achieve an expected rate of return, manage risk exposure, and focus on downside protection. OSF's invested assets will maintain sufficient liquidity to fund a portion of OSF's annual operating activities and structure the invested assets to maintain a high percentage of available liquidity. OSF diversifies their investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the board's Investment Committee, which oversees the investment program in accordance with established guidelines.

(b) Allocation of Investment Strategies

OSF maintains a percentage of assets in domestic and international stocks. To manage its risk exposure, the investment allocation of the portfolio is balanced with investments in fixed income and equity securities. Because of the inherent uncertainties for valuation of some holdings, the estimated fair values may differ from values that would have been used had a ready market existed.

(c) Basis of Reporting

Assets whose use is limited or restricted are reported at estimated fair value. If an investment is held directly by OSF and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in common and preferred stock and fixed income are based on share prices reported by the funds as of the last business day of the fiscal year.

(d) Fair Value of Financial Instruments

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

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, other assets, accounts payable and accrued expenses, and estimated third-party payor settlements.
- Fair values of OSF's investments held as investments, assets limited as to use, and assets with donor restrictions are estimated based on prices provided by its investment managers and its custodian bank. Fair value for cash and cash equivalents, equities, and foreign equities are measured using quoted market prices at the reporting date multiplied by the quantity held. U.S. Treasury obligations, U.S. government agencies, municipal securities, corporate obligations, mutual funds, and foreign securities are measured using other observable inputs. The carrying value equals fair value.
- Commingled funds and mutual funds that do not have a readily determinable fair value are valued using NAV as a practical expedient to measure fair value as allowed by ASU No. 2009-12, such as commingled foreign securities.
- Fair value of interest rate swaps is determined using pricing models developed based on the SOFR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and OSF.

(e) Fair Value Hierarchy

OSF adopted ASC Subtopic 820-10 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. OSF did not elect to fair value any of its nonfinancial assets or liabilities as of September 30, 2023 and 2022. ASC Subtopic 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that OSF has the ability to access at the measurement date.

(In thousands)

- Level 2 inputs are observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

The following tables present OSF's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2023:

		Total	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$	284,355	284,355	—	—
Investments:					
Cash equivalents	$	5,103	4,897	206	—
Domestic equities		446,413	446,413	—	—
U.S. Treasury obligations		175,526	175,526	—	—
U.S. government agencies		104,066	—	104,066	—
Municipal securities		2,729	—	2,729	—
Domestic corporate obligations		328,446	—	328,446	—
Domestic mutual funds – equities		36,883	36,883	—	—
Domestic mutual funds – bonds		216,086	216,086	—	—
Domestic commingled funds		170,900	147,595	23,305	—
Foreign equities		166,503	166,503	—	—
Foreign bonds		61,687	—	61,687	—
Foreign mutual funds – equities		23,088	23,088	—	—
Subtotal		1,737,430	1,216,991	520,439	—
Foreign securities – commingled		110,579			
Other		845			
Total investments	$	1,848,854			

(In thousands)

	Total	Level 1	Level 2	Level 3
Assets with donor restrictions – excluding pledges and other of $22,529:				
Cash equivalents	$ 615	615	—	—
U.S. Treasury obligations	36	36	—	—
Municipal securities	10	—	10	—
Domestic equities	40	40	—	—
Domestic mutual funds – equities	1,337	1,337	—	—
Domestic mutual funds – bonds	991	991	—	—
Foreign mutual funds – equities	403	403	—	—
Foreign mutual funds – bonds	94	94	—	—
Foreign equities	2	2	—	—
Other	56	—	56	—
Investments held at foundation:				
Cash equivalents	6,855	6,238	617	—
Domestic equities	47,850	47,850	—	—
U.S. government agencies	156	—	156	—
Domestic corporate obligations	28,408	—	28,408	—
Domestic mutual funds – equities	31,162	31,162	—	—
Domestic mutual funds – bonds	28,176	28,176	—	—
Foreign mutual funds – equities	11,783	11,783	—	—
Subtotal	157,974	128,727	29,247	—
Other – farmland/commodities	2,858			
Total assets with donor restrictions	$ 160,832			

(In thousands)

		Total	Level 1	Level 2	Level 3
Assets limited as to use:					
Cash equivalents	$	46,993	46,993	—	—
Domestic equities		14,134	14,134	—	—
U.S. Treasury obligations		51,857	51,857	—	—
U.S. government agencies		21,706	—	21,706	—
Domestic corporate obligations		78,413	—	78,413	—
Domestic mutual funds – equities		225	225	—	—
Domestic commingled funds		36,766	36,766	—	—
Foreign equities		1,369	1,369	—	—
Foreign bonds		11,281	—	11,281	—
Subtotal		262,744	151,344	111,400	—
Foreign commingled funds		16,725			
Total assets limited as to use	$	279,469			
Other assets – deferred compensation programs:					
Cash equivalents	$	10,184	10,184	—	—
Domestic mutual funds – equities		42,096	42,096	—	—
Domestic mutual funds – bonds		29,887	29,887	—	—
Foreign mutual funds – equities		6,653	6,653	—	—
Other assets – deferred compensation programs	$	88,820	88,820	—	—

		Total	Level 1	Level 2	Level 3
Financial liabilities:					
Fair value of swap agreements	$	(7,394)	—	(7,394)	—
Total financial liabilities	$	(7,394)	—	(7,394)	—

(In thousands)

The following tables present OSF's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2022:

	Total	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 261,428	261,428	—	—
Investments:				
Cash equivalents	$ 7,318	7,119	199	—
Domestic equities	488,047	488,047	—	—
U.S. Treasury obligations	175,270	175,270	—	—
U.S. government agencies	47,109	—	47,109	—
Municipal securities	3,092	—	3,092	—
Domestic corporate obligations	429,566	—	429,566	—
Domestic mutual funds – equities	33,258	33,258	—	—
Domestic mutual funds – bonds	148,988	148,988	—	—
Domestic commingled funds	163,452	144,266	19,186	—
Foreign equities	168,487	168,487	—	—
Foreign bonds	84,656	—	84,656	—
Foreign mutual funds – equities	19,556	19,556	—	—
Foreign mutual funds – bonds	9	9	—	—
Subtotal	1,768,808	$ 1,185,000	583,808	—
Foreign securities – commingled	103,383			
Other	871			
Total investments	$ 1,873,062			

(In thousands)

		Total		Level 1	Level 2	Level 3
Assets with donor restrictions – excluding pledges and other of $37,185:						
Cash equivalents	$	638		638	—	—
U.S. Treasury obligations		47		47	—	—
Municipal securities		33		—	33	—
Domestic equities		33		33	—	—
Domestic mutual funds – equities		1,333		1,333	—	—
Domestic mutual funds – bonds		883		883	—	—
Foreign mutual funds – equities		293		293	—	—
Foreign mutual funds – bonds		64		64	—	—
Foreign equities		2		2	—	—
Other		56		—	56	—
Investments held at foundation:						
Cash equivalents		5,285		5,186	99	—
Domestic equities		40,357		40,357	—	—
Domestic corporate obligations		6,482		—	6,482	—
Domestic mutual funds – equities		25,028		25,028	—	—
Domestic mutual funds – bonds		39,602		39,602	—	—
Foreign mutual funds – equities		8,991		8,991	—	—
Foreign mutual funds – bonds		181		181	—	—
Subtotal		129,308	$	122,638	6,670	—
Other – farmland/commodities		2,832				
Total assets with donor restrictions	$	132,140				

(In thousands)

	Total	Level 1	Level 2	Level 3
Assets limited as to use:				
Cash equivalents	$ 41,202	35,004	6,198	—
Domestic equities	12,270	12,270	—	—
U.S. Treasury obligations	53,063	53,063	—	—
U.S. government agencies	12,783	—	12,783	—
Municipal securities	2,365	—	2,365	—
Domestic corporate obligations	84,406	—	84,406	—
Domestic mutual funds – equities	105	105	—	—
Domestic commingled funds	27,147	27,147	—	—
Foreign equities	1,449	1,449	—	—
Foreign bonds	11,225	—	11,225	—
Subtotal	246,015	$ 129,038	116,977	—
Foreign commingled funds	13,664			
Total assets limited as to use	$ 259,679			
Other assets – deferred compensation programs:				
Cash equivalents	$ 10,252	10,252	—	—
Domestic mutual funds – equities	35,611	35,611	—	—
Domestic mutual funds – bonds	26,107	26,107	—	—
Foreign mutual funds – equities	5,233	5,233	—	—
Other assets – deferred compensation programs	$ 77,203	77,203	—	—

	Total	Level 1	Level 2	Level 3
Financial liabilities:				
Fair value of swap agreements	$ (14,090)	—	(14,090)	—
Total financial liabilities	$ (14,090)	—	(14,090)	—

OSF's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the year ended September 30, 2023 or 2022.

(In thousands)

The redemption frequency is daily with a notice period of trade day plus 3 days for all assets except those listed below.

		2023	2022	Redemption frequency	Days notice
Investments:					
Foreign securities – commingled	$	110,579	103,383	Monthly	10
Domestic commingled funds		170,900	163,452	Daily	2
Assets limited as to use:					
Foreign securities – commingled	$	16,725	13,664	Monthly	10
Domestic commingled funds		36,766	27,147	Daily	2

A summary of assets limited as to use as of September 30, 2023 and 2022 is as follows:

		2023	2022
Assets limited as to use:			
Held by trustee under bond indenture agreements	$	27,851	66,444
Board designated funds for self-insurance – unrestricted		251,618	193,235
Total assets limited as to use	$	279,469	259,679

The composition of OSF's investment return for the years ended September 30, 2023 and 2022 is as follows:

		2023	2022
Investment return:			
Interest and dividend income	$	46,905	34,757
Net realized gain		18,858	61,654
Change in net unrealized gain (loss) on trading securities		154,243	(624,698)
Total investment return	$	220,006	(528,287)

(Continued)

(In thousands)

Investment returns included in the accompanying consolidated statements of operations and changes in net assets without donor restrictions and changes in net assets for the years ended September 30, 2023 and 2022 are as follows:

		2023	2022
Nonoperating gains:			
Investment return	$	209,277	(511,202)
Other changes in net assets:			
Net assets with donor restrictions:			
Interest and dividend income		1,900	1,559
Net realized gains		922	3,998
Change in net unrealized gain (loss) on trading securities		7,907	(22,642)
Total investment return	$	220,006	(528,287)

(7) Cash and Cash Equivalents, Assets Limited as to Use, Investments, and Assets with Donor Restrictions

OSF holds cash balances that are optimized around large and predictable cash flows. To efficiently manage liquidity and capital, OSF continually determines the necessary amount of cash and cash equivalents to hold in cash and money market funds to meet operational needs and allocates the excess to a separate investment account that is expected to generate higher yielding returns while still maintaining a high degree of liquidity and a focus on capital preservation. As added insurance, OSF extended its line of credit through PNC in the event there is an unexpected immediate cash need. This $100,000 line of credit with PNC expires April 25, 2025. There was $50,000 drawn on the line of credit and outstanding at September 30, 2023 and 2022, respectively. In addition, OSF has a $50,000 line of credit with Commerce Bank with a two-year term ending on August 1, 2025. As of September 30, 2023, there have been no draws on the line of credit.

As of September 30, cash and cash equivalents, assets limited as to use, investments, and assets with donor restrictions consist of the following:

		2023	2022
Cash and cash equivalents	$	343,921	315,871
Equity securities		676,311	710,645
Fixed income		864,321	910,097
Mutual funds – bonds		245,347	189,727
Mutual funds – equities		104,881	88,564
Commingled funds		334,970	307,646
Other		26,288	40,944
	$	2,596,039	2,563,494

(In thousands)

In relation to the long-term investments of OSF, approximately 99.93% of the funds can be liquidated within one month, and approximately 0.07% may be liquid between one to two years, although access to these funds can be attained in less than one year depending on pricing of liquidation of the asset (farmland).

As of September 30, unrestricted financial assets, reduced by amounts that are considered to be illiquid within one year consist of the following:

		2023	2022
Cash and cash equivalents	$	284,355	261,428
Patient accounts receivable, net		532,107	473,578
Due from third party reimbursement programs		23,921	28,411
Other		51,676	31,464
Investments		1,848,854	1,873,062
Less assets with liquidity over one year		(845)	(871)
	$	2,740,068	2,667,072

(8) Property and Equipment

A summary of property and equipment at September 30, 2023 and 2022 is as follows:

		2023	2022
Land	$	103,677	99,236
Land improvements		40,489	39,845
Buildings		2,216,460	2,124,458
Equipment		1,336,900	1,277,408
		3,697,526	3,540,947
Less accumulated depreciation		1,965,106	1,848,695
		1,732,420	1,692,252
Construction in progress		343,783	291,226
Property and equipment, net	$	2,076,203	1,983,478

At September 30, 2023, the remaining outstanding contractual commitments on construction in progress approximated $84,750 for various construction and renovation projects, which will be financed through operations and existing capital. OSF capitalized interest, net of interest income on project funds in the amount of $7,150 and $7,676 for the years ended September 30, 2023 and 2022, respectively.

(9) Other Assets

Included in other assets at September 30, 2023 and 2022 are the following:

- Venture capital investments of $76,691 and $67,939 stated at lower of cost or market at September 30, 2023 and 2022, respectively. OSF recognized $10,031 and $1,936 of unrealized losses at September 30, 2023 and 2022, respectively, as a component of investment return.
- Deferred tax assets of $4,263 and $7,656 at September 30, 2023 and 2022, respectively (note 17).
- Capital leases and other miscellaneous assets of $23,389 and $21,673 at September 30, 2023 and 2022, respectively.
- OSF sponsors deferred compensation programs to supplement the income of participating individuals during retirement or following separation from the organization. Eligibility for the plans is restricted to specified executives or as defined by the Internal Revenue Service (IRS) for certain “highly paid” employees. The deferred compensation plans are not qualified retirement plans under Section 401 of the Code. Contributions to the plans are stipulated in the plan documents and involve various methodologies depending on the plan. Plan assets were $88,820 and $77,203 at September 30, 2023 and 2022, respectively. The plan assets have been included with other assets with a corresponding liability in other liabilities in the accompanying consolidated balance sheets at September 30, 2023 and 2022, respectively.
- The investments in joint ventures accounted for using the equity method of accounting totaled $24,762 and $33,825 at September 30, 2023 and 2022, respectively. The most significant of these investments at September 30, 2023 include:
  - Renal Intervention Center, LLC – 34% ownership interest
  - SimNext, LLC – 50% ownership interest
  - River Plex Fitness Center, LLC – 50% ownership interest
  - McLean Imaging Properties, LLC – 49.9% ownership interest
  - Rockford Orthopedic Surgery Center, LLC (ROSC) – 25% ownership interest
  - Gladstone MOB – 50% ownership interest
  - Central Illinois Imaging, LLC – 47% ownership interest
  - Physician Immediate Care, LLC – 40% ownership interest
  - Pointcore Construction, LLC – 50% ownership interest
  - Pointcore Network Services – 50% ownership interest
  - US Healthvest – 20% ownership interest

  For the years ended September 30, 2023 and 2022, OSF recognized income of $5,709 and $8,472 in investments in joint ventures, respectively, as a component of other revenue.

(In thousands)

The following table summarizes the aggregated unaudited financial information of unconsolidated joint ventures of OSF as of September 30, 2023 and 2022:

		2023	2022
Total assets	$	101,853	98,012
Total liabilities		50,092	40,021
Total net assets	$	51,761	57,991
Total revenues	$	36,059	43,704
Operating expenses		25,072	28,144
Net income	$	10,987	15,560

(10) Long-Term Debt

A summary of long-term debt at September 30, 2023 and 2023 is as follows:

	Interest rates		Final maturity dates	2023	2022
Fixed interest rate issues:					
2018A	4.00% through 5.00%		May 15, 2047	$ 324,595	328,660
2016	3.125% through 5.00%		May 15, 2039	108,790	110,210
2015A	4.00% through 5.00%		November 15, 2045	330,110	338,225
2020A	3.428 %		May 15, 2050	121,555	121,555
2020C	3.259 %		May 15, 2041	171,030	171,030
Rock Cut	1.870 %		December 17, 2027	16,955	18,355
	2023	2022			
Variable interest rate issues:					
2018B	4.60 %	2.95 %	November 15, 2037	65,435	65,435
2018C	4.20	2.65	November 15, 2037	65,385	65,385
2015B	—	3.48	November 1, 2045	—	94,270
2022C	6.23	—	November 1, 2045	94,270	—
2008A	3.90	2.50	August 15, 2035	30,640	33,725
2008B	3.90	2.50	August 15, 2035	30,625	33,710
2020B-1	5.00	5.00	May 15, 2050	65,375	65,375
2020B-2	5.00	5.00	May 15, 2050	84,330	84,330
Total Master Trust Indenture obligations				1,509,095	1,530,265

(In thousands)

	Interest rates 2023	Interest rates 2022	Final maturity dates	2023	2022
Other obligations:					
Aviation hanger	— %	3.57 %	June 1, 2024	—	291
Buildings	2.60	2.60	March 25, 2025	7,218	11,875
Line of credit	5.91	2.72	April 25, 2025	50,000	50,000
2023A Note	3.83	—	September 1, 2033	20,000	—
2023B Note	3.85	—	September 1, 2033	15,000	—
2022A-Fixed 124 Adams	2.81	2.81	April 25, 2028	66,066	68,000
2022A-Variable 124 Adams	5.95	2.94	April 25, 2028	12,000	12,000
Other miscellaneous notes payable and capital leases				29,461	27,867
				1,708,840	1,700,298
Plus original issue premium, net				47,131	54,707
Total debt				1,755,971	1,755,005
Less:					
Current installments				39,242	39,500
Debt issuance costs, net				8,399	9,310
Total long-term debt, excluding current installments				$ 1,708,330	1,706,195

OSF's average interest rates for variable rate debt for the years ended September 30, 2023 and 2022 are as follows:

	2023	2022
Variable interest rate issues:		
2015B	—	1.75
2022C	5.60	—
2018B	2.77	0.45
2018C	2.80	0.46
2008A	2.80	0.59
2008B	2.79	0.59
2020B-1	5.00	5.00
2020B-2	5.00	5.00

On August 1, 2018, OSF entered into a Third Amended and Restated Master Trust Indenture (MTI), which has been supplemented and amended pursuant to the fourteenth supplemental master trust indenture dates as of September 1, 2023. The purpose of the MTI is to provide a mechanism for the efficient and economical advancement of funds to various operating divisions of OSF using the collective borrowing capacity and credit rating of OSF. OSF has pledged letters of credit as collateral on certain borrowings under the MTI. Under the terms of the MTI, OSF is also required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The MTI also places limits on the incurrence of additional borrowings and requires that OSF satisfy certain measures of financial performance as long as the notes are outstanding. As of September 30, 2023 and 2022, amounts outstanding under the MTI totaled $1,509,095 and $1,530,265, respectively.

Bond issue premiums and costs are amortized over the term of the related bonds using a weighted average method, based on outstanding debt.

The 2020B-1 and 2020B-2 series of debt are put bonds. The 2020B-1 put date is November 14, 2024 and 2020B-2 is November 14, 2026. On these dates, the bonds will need to be refinanced or paid off.

On April 25, 2022, 124 Adams Holdings, LLC refinanced the construction loan, 2019A-Variable 124 Adams, of $100,000 with PNC Bank into two tranches, one $68,000 fixed rate (as September 30, 2023 and 2022 the balance of this loan is $66,066 and $68,000, respectively) and one $32,000 variable rate (as of September 30, 2023 and 2022 the balance of this loan is $12,000). Both of the loans mature on April 25, 2028.

On June 9, 2022, OSF amended the rate indices for the 2015B bonds with Bank of America to change from LIBOR to SOFR.

On December 21, 2022, OSF refinanced the Series 2015B Bank of America, N.A. debt to 2022C TD Bank, N.A. The bonds are payable at a variable rate with varying principal payments due annually beginning November 1, 2023 and continuing through final maturity on November 1, 2045. TD Bank credit commitment extends until December 21, 2032, at that time the debt will need to be refinanced or paid off.

On May 2, 2023, OSF entered into a rate lock agreement with Bank of America for new debt. On September 1, 2023, OSF entered into a 10 year tax-exempt fixed loan with Bank of America for a total of $35,000, comprised of two new notes, 2023B note of $15,000 at 3.85% fixed rate and 2023A note of $20,000 at 3.83% fixed rate. Both of these notes are secured by equipment. The notes are due on September 1, 2033.

On June 16, 2023, OSF renewed its line of credit with PNC Bank. The line of credit has $100,000 capacity with a rate of SOFR + 60bps and it matures on April 25, 2025. OSF has a balance from draws outstanding of $50,000 for the years ended September 30, 2023 and 2022.

On August 1, 2023, OSF entered into a new line of credit with Commerce Bank. The line of credit has $50,000 capacity, a two-year term ending on August 1, 2025, with a rate of 1-Month Term SOFR* + 55** bps. As of September 30, 2023, there has not been a drawn on this line of credit.

At September 30, 2023, OSF had variable rate demand notes that had put options available to the creditor. If the put options are exercised, the bonds are presented to the bank, which in turn draws on the underlying letter of credit or liquidity facility. In June 2022, the 2008A and 2008B letters of credit previously held by

(In thousands)

Barclays were refinanced through Toronto Dominion Bank. In May 2023, the 2018B letter of credit was extended to May 15, 2028. In April 2023 the 2018C letter of credits was extended to April 13, 2028.

	Term
OSF Master Trust Indenture Obligations:	
2018B	Due in full 367 days after bank purchase date. The letter of credit expires on May 15, 2028.
2018C	Eight equal installments beginning 367 days after bank purchase date The letter of credit expires on April 13, 2028.
2008A	Thirteen equal installments beginning 365 days after bank purchase date The letter of credit expires on June 8, 2027
2008B	Thirteen equal installments beginning 365 days after bank purchase date The letter of credit expires on June 8, 2027

Scheduled principal payments on OSF's long-term debt are as follows:

Year ending September 30:		
2024	$	39,242
2025		95,332
2026		49,717
2027		48,709
2028		128,946
Thereafter		1,346,894

Principal payments on long-term debt if (i) variable rate bonds are put and not remarketed resulting in draws on letters of credit or (ii) certain debt is not refinanced in the ordinary course is as follows:

Year ending September 30:		
2024	$	32,812
2025		272,541
2026		95,831
2027		146,161
2028		121,336
Thereafter		1,040,159

(In thousands)

A summary of interest cost on borrowed funds held by the trustee under the MTI during the years ended September 30, 2023 and 2022 is as follows:

		2023	2022
Interest cost – charged to operations	$	49,402	41,457

(11) Derivative Instruments and Hedging Activities

OSF has interest-rate-related derivative instruments to manage its exposure on its variable-rate debt instruments and does not enter into derivative instruments for any purpose other than cash flow hedging purposes.

By using derivative financial instruments to hedge exposures to changes interest rates, OSF exposes itself to credit risk, tax risk, and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes OSF, which creates credit risk for OSF. When the fair value of a derivative contract is negative, OSF owes the counterparty, and therefore, it does not pose a credit risk. OSF minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is at least “A” or “A2” by rating agency.

Tax risk refers to the potential adverse effect that a change in tax law could have on the relationship between taxable (SOFR) and tax-exempt (SIFMA) rates. OSF minimizes the tax risk in derivative instruments by maintaining sufficient cash reserves to handle potential tax law changes.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The terms of the swap agreements have triggers requiring posting of collateral in certain events. OSF has not been required to post collateral during the years ended September 30, 2023 and 2022. The fixed payor swaps are insured by Assured Guaranty and do not require any collateral posting unless Assured Guaranty’s long-term rating falls below A- or A3 by S&P or Moody’s, respectively. Assured Guaranty currently maintains long-term ratings of AA (Stable) and A1 (Stable) by S&P and Moody’s, respectively.

A summary of outstanding positions under OSF’s interest rate swap program at September 30, 2023 is as follows:

	Notional amount	Maturity date	Rate received	Rate paid
$	34,900,000	October 19, 2029	BMA Index	3.969 %
	34,775,000	November 2, 2029	BMA Index	3.969
	2,450,000	November 15, 2024	BMA Index	3.794
	125,400,000	November 15, 2037	67% SOFR + 7.67 bp (FB)	3.651

(In thousands)

Net payments equal to the differential to be paid under all interest rate swap agreements are recognized within nonoperating (losses) gains, net, as net settlement of derivative instruments and amounted to approximately $(1,456) and $(6,742) in 2023 and 2022, respectively.

The fair value of the swap agreements under ASC Subtopic 820-10 was $(7,394) and $(14,090) and is recorded as a component of other liabilities in the accompanying consolidated balance sheets at September 30, 2023 and 2022, respectively. For the years ended September 30, 2023 and 2022, OSF recognized an unrealized gain of $6,696 and $30,413, respectively, as its change in the fair value of the interest rate swaps as a component of nonoperating gains (losses) – change in fair value of derivative instruments.

The following is a summary of the swaps as of September 30, 2023:

Type of interest swap	Notional amount	Fair value
Floating-to-fixed	$ 34,900,000	(737)
Floating-to-fixed	34,775,000	(679)
Floating-to-fixed	2,450,000	(4)
Floating-to-fixed	125,400,000	(5,974)
		$ (7,394)

The following is a summary of the swaps as of September 30, 2022:

Type of interest swap	Notional amount	Fair value
Floating-to-fixed	$ 36,600,000	(1,302)
Floating-to-fixed	36,475,000	(1,257)
Floating-to-fixed	3,600,000	(38)
Floating-to-fixed	127,700,000	(11,493)
		$ (14,090)

(In thousands)

(12) Assets with Donor Restrictions

Assets with donor restrictions have been restricted by donors for the following purposes as of September 30:

		2023	2022
Capital	$	30,511	29,049
Colleges of nursing		12,711	10,752
Healthcare services		131,093	118,369
Education and research		691	5,166
Patient care		7,843	5,477
Other		512	512
	$	183,361	169,325

OSF holds assets with donor restrictions that are permanently endowed and only the income is available for designated purposes. Income on the following endowments is restricted for the following purposes as of September 30:

		2023	2022
Capital	$	919	923
Colleges of nursing		7,766	6,649
Healthcare services		79,677	71,761
Education and research		691	5,166
Patient care		7,842	5,477
Other		431	431
	$	97,326	90,407

(13) Self-Insurance

OSF is involved in litigation arising in the ordinary course of business. Reported claims are in various stages of litigation. Additional claims may be asserted against OSF arising from services through September 30, 2023. It is the opinion of management that the estimated liabilities accrued at September 30, 2023, are adequate to provide for potential losses resulting from pending or threatened litigation.

OSF has established a self-insurance program for worker’s compensation (WC) and professional and general liability (PGL), which provides for both self-insured limits and purchased coverage above such limits. Excess coverage for PGL is provided by OSF Assurance Company, who purchases reinsurance from third-party carriers for professional and general liability. Claims are reflected based upon actuarial estimation, including both reported and incurred, but not reported claims, taking into consideration the severity of incident and the expected timing of claim payments. At September 30, 2023, and 2022, funds

(Continued)

(In thousands)

held by OSF and OSF Assurance Company were $299,478 and $236,477, respectively. The related current estimated self-insurance liabilities for September 30, 2023, and 2022 were $56,250 and $48,600 for WC & PGL, respectively. The related long-term estimated self-insurance liabilities for September 30, 2023, and 2022 were $316,331 and $286,373 for WC and PGL, respectively, the estimated self-insurance liability for all future claim payments, reflects the actuarial determined outstanding losses at the undiscounted/expected level. These calculations take into consideration any liability that may be covered under an extended reporting endorsement and consider tail liability.

OSF is also self-insured for unemployment compensation benefits and health and dental claims. OSF has developed internal techniques for estimating the ultimate costs of these claims. Accrued losses are recorded on an undiscounted basis. In management's opinion, accrued losses provide an adequate reserve for loss contingencies. Due to the short-term nature of health and dental claims, estimated liabilities of $20,592 and $22,144 as of September 30, 2023 and 2022, respectively, have been reported as accrued expenses. The associated expense of $228,067 and $216,052 as of September 30, 2023 and 2022, respectively, is included in salaries and benefits in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

As of September 30, 2023 and 2022, estimated self-insurance liabilities, excluding health and dental claims, comprise the following:

		2023	2022
Professional and general liability	$	348,346	310,994
Workers' compensation		24,235	23,979
Total estimated self-insurance liabilities		372,581	334,973
Less current portion		56,250	48,600
Total estimated self-insurance liabilities, less current portion	$	316,331	286,373

OSF shares certain insurance risks it has underwritten through the use of reinsurance contracts. Amounts that can be claimed from OSF's reinsurers are valued by an independent actuary. Should OSF's reinsurers be unable to reimburse OSF for recoverable claims, OSF would still be liable to pay the claims; however, OSF contracts with various highly rated insurance carriers to mitigate this risk. As of September 30, 2023 and 2022, OSF has recorded no insurance receivables in the accompanying consolidated balance sheets.

Professional and general liability expense is included in purchased services and other and worker's compensation expense is included in salaries and benefits in the accompanying consolidated statements of operations and changes in net assets without donor restrictions. As of September 30, 2023 and 2022, excluding health and dental, self-insurance expense comprises the following:

(In thousands)

		2023	2022
Professional and general liability	$	65,643	107,933
Workers' compensation		12,925	15,285
Total self-insurance expense	$	78,568	123,218

(14) Retirement Benefits

OSF sponsors four noncontributory defined-benefit pension plans; The Sisters of the Third Order Employee Pension plan (OSF Plan), OSF Saint Francis, Inc. Employee Pension Plan (PCI Plan), Retirement Plan for Employees of Saint Anthony's Health Center (SAHC Plan), and the Institute of Physical Medicine & Rehabilitation Center Employees' Retirement Plan (IPMR Plan) covering all employees who met the eligibility requirements. The Plans were frozen on the following dates to eliminate benefit accruals:

OSF Plan	PCI Plan	SAHC Plan	IPMR Plan
March 5, 2011	March 5, 2011	February 29, 2011	January 1, 2016

The OSF Plan and SAHC Plan are "Church" plans and are not subject to Employee Retirement Income Security Act (ERISA). Contributions to the OSF Plan and SAHC Plan made on a monthly basis to improve the Plan's funded status.

The PCI Plan and IPMR Plan are subject to ERISA. The PCI Plan and IPMR Plan's funding policy is to contribute an amount not less than the minimum required contribution under the ERISA of 1974.

The actuarial funding method used in the actuarial valuations for all plans for 2023 and 2022 is the projected unit credit cost method. The measurement date for plans liabilities and assets is September 30 for the years ended September 30, 2023 and 2022.

(In thousands)

The following table set forth the funded status and amounts recognized in OSF's consolidated financial statements at September 30, 2023:

		OSF Plan	PCI Plan	SAHC Plan	IPMR Plan	Total
Change in benefit obligation:						
Benefit obligation at beginning of year	$	856,395	62,513	59,259	2,413	980,580
Interest cost		47,039	3,442	3,263	133	53,877
Actuarial loss		(47,440)	(3,317)	(3,143)	(28)	(53,928)
Benefits paid		(44,325)	(2,966)	(3,884)	(182)	(51,357)
Benefit obligation at end of year		811,669	59,672	55,495	2,336	929,172
Change in plan assets:						
Fair value of plan assets at beginning of year		603,891	56,292	34,696	2,161	697,040
Actual return on plan assets		89,213	8,746	4,365	189	102,513
Employer contributions		4,464	—	1,031	—	5,495
Benefits paid		(44,325)	(2,966)	(3,884)	(182)	(51,357)
Fair value of plan assets at end of year		653,243	62,072	36,208	2,168	753,691
Reconciliation of funded status:						
Funded status	$	(158,426)	2,400	(19,286)	(168)	(175,480)
Net amount recognized at year-end	$	(158,426)	2,400	(19,286)	(168)	(175,480)
Amounts recognized in accompanying consolidated balance sheets:						
Accrued benefit liability	$	(158,426)	2,400	(19,286)	(168)	(175,480)
Amounts not yet reflected in net periodic benefit cost and included as an accumulated credit to unrestricted net assets:						
Net actuarial loss	$	(195,181)	(12,393)	(11,973)	(1,224)	(220,771)
Prior service cost		(5,447)	(225)	(702)	(46)	(6,420)
Net amounts recognized in the accompanying consolidated balance sheets	$	(200,628)	(12,618)	(12,675)	(1,270)	(227,191)
Weighted average assumptions:						
Discount rate:						
Benefit obligation		6.15	6.15	6.20	6.25	
Net periodic benefit cost		5.65	5.65	5.70	5.80	
Rate of compensation increase:						
Benefit obligation		N/A	N/A	N/A	N/A	
Net periodic benefit cost		N/A	N/A	N/A	N/A	
Expected return on plan assets		7.00	7.00	7.00	7.00	

(Continued)

(In thousands)

		OSF Plan	PCI Plan	SAHC Plan	IPMR Plan	Total
Components of net periodic benefit cost:						
Interest cost	$	47,039	3,442	3,263	133	53,877
Expected return on plan assets		(45,787)	(4,426)	(2,456)	(132)	(52,801)
Amortization of prior service cost		234	9	33	2	278
Amortization of actuarial loss		2,950	—	297	34	3,281
Net periodic benefit cost	$	4,436	(975)	1,137	37	4,635
Accumulated benefit obligation	$	811,669	59,672	55,495	2,336	929,172

The following table set forth the funded status and amounts recognized in OSF's consolidated financial statements at September 30, 2022:

		OSF Plan	PCI Plan	SAHC Plan	IPMR Plan	Total
Change in benefit obligation:						
Benefit obligation at beginning of year	$	1,187,513	86,175	81,054	2,964	1,357,706
Interest cost		36,106	2,626	2,450	83	41,265
Actuarial loss		(325,493)	(23,514)	(20,384)	(521)	(369,912)
Benefits paid		(41,731)	(2,774)	(3,861)	(113)	(48,479)
Benefit obligation at end of year		856,395	62,513	59,259	2,413	980,580
Change in plan assets:						
Fair value of plan assets at beginning of year		799,202	72,966	44,801	2,849	919,818
Actual return on plan assets		(161,422)	(13,900)	(7,237)	(576)	(183,135)
Employer contributions		7,842	—	993	—	8,835
Benefits paid		(41,731)	(2,774)	(3,861)	(112)	(48,478)
Fair value of plan assets at end of year		603,891	56,292	34,696	2,161	697,040
Reconciliation of funded status:						
Funded status	$	(252,504)	(6,221)	(24,563)	(252)	(283,540)
Net amount recognized at year-end	$	(252,504)	(6,221)	(24,563)	(252)	(283,540)
Amounts recognized in accompanying consolidated balance sheets:						
Accrued benefit liability	$	(252,504)	(6,221)	(24,563)	(252)	(283,540)

(In thousands)

		OSF Plan	PCI Plan	SAHC Plan	IPMR Plan	Total
Amounts not yet reflected in net periodic benefit cost and included as an accumulated credit to unrestricted net assets:						
Net actuarial loss	$	(288,998)	(20,031)	(17,324)	(1,342)	(327,695)
Prior service cost		(5,681)	(234)	(735)	(48)	(6,698)
Net amounts recognized in the accompanying consolidated balance sheets	$	(294,679)	(20,265)	(18,059)	(1,390)	(334,393)
Weighted average assumptions:						
Discount rate:						
Benefit obligation		5.65	5.65	5.70	5.80	
Net periodic benefit cost		3.10	3.10	3.10	2.95	
Rate of compensation increase:						
Benefit obligation		N/A	N/A	N/A	N/A	
Net periodic benefit cost		N/A	N/A	N/A	N/A	
Expected return on plan assets		6.50	6.50	6.50	6.50	
Components of net periodic benefit cost:						
Interest cost	$	36,106	2,626	2,450	83	41,265
Expected return on plan assets		(43,435)	(4,222)	(2,548)	(175)	(50,380)
Amortization of prior service cost		234	9	33	2	278
Amortization of actuarial loss		14,937	848	1,058	25	16,868
Net periodic benefit cost	$	7,842	(739)	993	(65)	8,031
Accumulated benefit obligation	$	856,395	62,513	59,259	2,413	980,580

As of September 30, 2023 and 2022, OSF adopted the Pri-2012 Mortality Table with generational improvements using a modified projection scale MP-2021.

Benefit costs are included in other nonoperating (losses) gains in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories.

OSF is expected to contribute to the Plans as follows in 2024:

		OSF Plan	PCI Plan	SAHC Plan	IPMR Plan	Total
2024 Expected contributions	$	3,056	217	993	144	4,410

(In thousands)

The expected benefits to be paid in each year are as follows:

		OSF Plan	PCI Plan	SAHC Plan	IPMR Plan	Total
Approximate benefits to be paid in following years:						
2024	$	52,736	16,188	4,246	842	74,012
2025		53,796	3,326	4,269	225	61,616
2026		56,106	3,442	4,373	251	64,172
2027		58,131	3,556	4,461	188	66,336
2028		59,787	3,656	4,505	139	68,087
2029 through 2033		310,502	18,897	22,248	607	352,254

All of the plans have a statement of investment policy, which are reviewed and approved by the OSF board of directors. The policy establishes goals and objectives of the fund, asset allocations, allowable and prohibited investments, socially responsible guidelines, and asset classifications, as well as specific investment manager guidelines. The policy states that the rebalancing of these assets to the target allocations will be reviewed on a semiannual basis. Investments are managed by independent advisors. Management monitors the performance of these managers on a monthly basis.

The table below lists the target asset allocation and acceptable ranges and actual asset allocations as of September 30, 2023 and 2022 for the OSF Plan:

Asset	Target allocation	Acceptable range	Actual allocation at September 30 2023	Actual allocation at September 30 2022
Large cap equity	45 %	40% to 50%	45.7 %	45.7 %
Small cap equity	7	2 to 12	7.2	7.6
International equity	23	18 to 28	21.5	18.3
Fixed income	25	20 to 30	25.0	27.8
Cash	—	—	0.6	0.6

Fair Value of Financial Instruments

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2023 and 2022.

- Fair values of the Plan’s assets are estimated based on prices provided by its investment managers and its custodian bank except for commingled funds. Fair values for cash and cash equivalents, equities, and foreign equities are measured using quoted market prices at the reporting date multiplied by the quantity held. U.S. Treasury obligations, U.S. government agencies, municipal securities, corporate obligations, and foreign securities are measured using other observable inputs. The carrying value equals fair value.
- Commingled funds and mutual funds that do not have a readily determinable fair value are valued using NAV as a practical expedient to measure fair value as allowed by ASU No. 2009-12.

(In thousands)

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

Fair Value Hierarchy

The Plan adopted ASC Subtopic 715-20-50, *Compensation – Retirement Benefits*, on October 1, 2009 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Subtopic 715-20-50 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The following table presents the OSF Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2023:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Cash and cash equivalents	$ 20,741	20,741	—	—
Domestic equities	222,663	222,663	—	—
U.S. Treasury obligations	27,105	27,105	—	—
U.S. government agencies	24,215	—	24,215	—
Municipal securities	450	—	450	—
Domestic corporate obligations	64,078	—	64,078	—
Domestic mutual funds – equities	754	754	—	—
Domestic mutual funds – bonds	16,451	16,451	—	—
Domestic commingled funds	114,294	103,325	10,969	—
Foreign equities	90,302	90,302	—	—
Foreign bonds	10,293	—	10,293	—
Subtotal	591,346	481,341	110,005	—
Foreign commingled funds	61,897			
Total financial assets	$ 653,243			

(In thousands)

The following table presents the OSF Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2022:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Cash and cash equivalents	$ 18,110	18,110	—	—
Domestic equities	199,856	199,856	—	—
U.S. Treasury obligations	19,850	19,850	—	—
U.S. government agencies	19,630	—	19,630	—
Municipal securities	920	—	920	—
Domestic corporate obligations	73,589	—	73,589	—
Domestic mutual funds – equities	315	315	—	—
Domestic mutual funds – bonds	13,828	13,828	—	—
Domestic commingled funds	113,041	100,010	13,031	—
Foreign equities	72,534	72,534	—	—
Foreign bonds	18,813	—	18,813	—
Subtotal	550,486	$ 424,503	125,983	—
Foreign commingled funds	53,405			
Total financial assets	$ 603,891			

The Plan's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended September 30, 2023 and 2022.

The redemption frequency is daily with a notice period of trade day plus 3 days for all assets except those listed below.

	2023	2022	Redemption frequency	Days notice
Foreign commingled funds	$ 61,897	53,405	Monthly	10
Domestic commingled funds	114,294	113,041	Daily	2

(In thousands)

The table below lists the target asset allocation and acceptable ranges and actual asset allocations for the PCI Plan as of September 30, 2023 and 2022:

Asset	Target allocation	Acceptable range	Actual allocation at September 30 2023	Actual allocation at September 30 2022
Large cap equity	45 %	40% to 50%	46.1 %	46.7 %
Small cap equity	7	2 to 12	6.0	5.8
International equity	23	18 to 28	21.8	19.9
Fixed income	25	20 to 30	25.0	26.9
Cash	—	—	1.1	0.8

The following table presents the PCI Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2023:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Cash and cash equivalents	$ 698	698	—	—
Domestic mutual funds – equities	16,519	16,519	—	—
Domestic commingled funds	30,445	30,445	—	—
Foreign securities	14,410	14,410	—	—
Total financial assets	$ 62,072	62,072	—	—

The following table presents the PCI Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2022:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Cash and cash equivalents	$ 467	467	—	—
Domestic mutual funds – equities	16,078	16,078	—	—
Domestic commingled funds	27,877	27,877	—	—
Foreign securities	11,870	11,870	—	—
Total financial assets	$ 56,292	56,292	—	—

(In thousands)

The PCI Plan's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended September 30, 2023 and 2022.

The redemption frequency is daily with a notice period of trade day plus 3 days for all assets except those listed below.

	2023	2022	Redemption frequency	Days' notice
Domestic commingled funds	$ 30,445	27,877	Daily	2

The table below lists the target asset allocation and acceptable ranges and actual asset allocations for the SAHC Plan as of September 30, 2023 and 2022:

			September 30	
Asset	**Target allocation**	**Acceptable range**	**2023**	**2022**
Large cap equity	45 %	40% to 50%	25.3 %	25.8 %
Small/Mid cap equity	7	2 to 12	15.2	16.2
International equity	23	18 to 28	10.3	10.2
Fixed income	25	20 to 30	22.9	23.1
Cash	—	—	—	0.2
Balanced	—	—	26.3	24.5

The following table presents the SAHC Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2023:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Cash and cash equivalents	$ 1,867	1,867	—	—
Domestic equities	12,823	12,823	—	—
U. S. Treasury obligations	5,088	5,088	—	—
U. S. government agencies	255	—	255	—
Domestic corporate obligations	2,212	—	2,212	—
Domestic mutual funds – equities	6,399	6,399	—	—
Foreign equities	2,585	2,585	—	—
Foreign bonds	271	—	271	—
Foreign mutual funds – equities	4,708	4,708	—	—
Total financial assets	$ 36,208	33,470	2,738	—

(In thousands)

The following table presents the SAHC Plan's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2022:

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Cash and cash equivalents	$ 2,099	2,099	—	—
Domestic equities	12,555	12,555	—	—
U. S. Treasury obligations	5,028	5,028	—	—
U. S. government agencies	251	—	251	—
Domestic corporate obligations	2,130	—	2,130	—
Domestic mutual funds – equities	6,315	6,315	—	—
Foreign equities	2,375	2,375	—	—
Foreign bonds	265	—	265	—
Foreign mutual funds – equities	3,678	3,678	—	—
Total financial assets	$ 34,696	32,050	2,646	—

The SAHC Plan's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for the years ended September 30, 2023 and 2022.

The redemption frequency is daily with a notice period of trade day plus 3 days.

In addition, OSF sponsors a retirement savings plan that includes a 401(k) feature. In conjunction with the change in the pension plans on March 5, 2011, OSF enhanced the retirement savings plan by increasing the match and adding an annual discretionary contribution. In 2023 and 2022, participants may deposit an amount from 1% to 90% of their eligible compensation up to the IRS limit. OSF contributes 100% of the employee contribution up to 5% of eligible compensation. OSF may also make annual discretionary contributions based on a participant's age and years of service. OSF contributed $64,108 in 2023 and $76,639 in 2022 to the retirement savings plan, which has been expensed as salaries and benefits expense.

(15) Leases

Information as of and for the year ended September 30, 2023 and 2022:

OSF is obligated under finance leases covering certain transportation and office equipment that expire at various dates during the next four years.

(In thousands)

OSF has several noncancelable operating leases, primarily for office space, transportation, medical, and office equipment that expire over the next 41 years. Certain of these leases contain renewal options. Because OSF is not reasonably certain to exercise these renewal options, the options are not considered in determining the lease term, and associated potential option payments are excluded from lease payments. OSF's leases generally do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include fixed payments plus, for many of OSF's leases, variable payments. For OSF's transportation equipment leases, variable payments include those for maintenance and mileage. For office space leases that include variable payments, those include payments for OSF's proportionate share of the building's property taxes, insurance, and common area maintenance.

		2023	2022
Operating lease cost	$	30,291	32,589
Finance lease cost:			
Amortization of ROU assets		8,757	9,075
Interest on lease liabilities		830	675
Total finance lease cost		9,587	9,750
Variable lease cost		307	505
Short-term lease cost		31,199	26,914
Total lease cost	$	71,384	69,758

(In thousands)

Amounts reported in the consolidated balance sheets as of September 30, 2023 and 2022, were as follows:

		2023	2022
Operating leases:			
Operating lease ROU asset	$	214,699	191,954
Operating lease accumulated depreciation		(67,023)	(43,988)
Operating lease ROU assets		147,676	147,966
Current portion of operating lease liability		(27,128)	(25,829)
Long-term operating lease liability, net of current portion		(123,029)	(123,722)
Total operating lease liabilities		(150,157)	(149,551)
Operating lease liabilities, net of ROU assets	$	(2,481)	(1,585)
Finance leases:			
Finance lease ROU asset	$	42,786	37,326
Finance lease accumulated depreciation		(24,529)	(15,772)
Property and equipment, net		18,257	21,554
Current portion of long-term debt		(8,378)	(9,921)
Long-term debt, net of current portion		(12,237)	(13,436)
Total lease liability		(20,615)	(23,357)
Finance lease liability, net of ROU assets	$	(2,358)	(1,803)

(Continued)

(In thousands)

Other information related to operating leases as of September 30, 2023 and 2022 was as follows:

		2023	2022
Supplemental cash flow information:			
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from finance leases	$	889	772
Operating cash flows from capitalized operating leases		31,369	33,345
Financing cash flows from finance leases		9,108	9,440
ROU assets obtained in exchange for new finance lease liabilities		1,091	17,039
ROU assets obtained in exchange for new capitalized operating lease liabilities		17,449	57,458
Weighted average remaining lease term – finance leases (in years)		2.29	2.23
Weighted average remaining lease term – capitalized operating leases (in years)		7.43	8.03
Weighted average discount rate – finance leases		5.59 %	2.80 %
Weighted average discount rate – capitalized operating leases		2.86	2.05

Amounts disclosed for ROU assets obtained in exchange for lease obligations include amounts added to the carrying amount of ROU assets resulting from lease modifications and reassessments.

Maturities of lease liabilities under noncancelable leases as of September 30, 2023 are as follows:

		Operating leases	Finance leases
2024	$	31,266	10,390
2025		25,773	8,275
2026		23,171	3,278
2027		19,877	247
2028		17,670	—
Thereafter		48,499	—
Total undiscounted lease payments		166,256	22,190
Less imputed interest		16,099	1,575
Total lease liabilities	$	150,157	20,615

(In thousands)

The following table is a schedule by year of future minimum lease payments to be made under operating leases as of September 30, 2023 that have initial or remaining lease terms in excess of one year:

		Amount
Year ending September 30:		
2024	$	31,266
2025		25,773
2026		23,171
2027		19,877
2028		17,670
Thereafter		48,499

(16) Functional Expenses

OSF provides general healthcare services to residents within its respective geographic regions. Expenses related to providing these services for the years end September 30, 2023 and 2022 are as follows:

2023		Healthcare services	General and administration	Total
Salaries and benefits	$	1,649,426	574,681	2,224,107
Sisters' evaluated services		46	1,373	1,419
Professional Fees		290,455	84,242	374,697
Supplies		479,140	150,216	629,356
Purchased services and other		191,824	475,179	667,003
Depreciation and amortization		27,224	110,249	137,473
Interest		221	58,153	58,374
	$	2,638,336	1,454,093	4,092,429

2022		Healthcare services	General and administration	Total
Salaries and benefits	$	1,660,339	414,789	2,075,128
Sisters' evaluated services		76	1,687	1,763
Professional Fees		346,341	75,913	422,254
Supplies		532,590	68,500	601,090
Purchased services and other		182,387	474,983	657,370
Depreciation and amortization		28,241	105,919	134,160
Interest		116	47,280	47,396
	$	2,750,090	1,189,071	3,939,161

(17) Income Taxes

Income tax expense attributable from revenues, gains, and other support over expenses was $4,202 and $3,167 for the years ended September 30, 2023 and 2022, respectively. PCI recorded an income tax liability of $(274) and $(716) for the years ended September 30, 2023 and 2022, respectively as a component of accounts payable and accrued expenses in the consolidated balance sheets.

Deferred income taxes on taxable entities are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future tax years to differences between the consolidated financial statement carrying amounts and the tax basis of existing assets and liabilities. As of September 30, 2023 and 2022, PCI has a deferred tax asset related to these timing differences of $4,264 and $7,656, respectively, which is recorded within other assets in the consolidated balance sheets. As of September 30, 2023 and 2022, no valuation allowance against the PCI deferred tax assets was considered necessary as management believed it was more likely than not that the results of future operations would generate sufficient taxable income to realize these deferred tax assets.

OSF generates "unrelated business" income subject to federal and state income taxes (UBIT). OSF recorded a UBIT and excise tax liability of $418 and $(413) and for the years ended September 30, 2023 and 2022, respectively as a component of accounts payable and accrued expenses in the consolidated balance sheets. UBIT expense of $500 and $1,712 was recorded for the years ended September 30, 2023 and 2022, respectively, and is included in income taxes within the consolidated statements of operations and changes in net assets without donor restrictions.

(18) Commitments and Contingencies

(a) Litigation

OSF and its subsidiaries are involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on OSF and its subsidiaries' future financial position or results from operations.

(b) Legal, Regulatory, and Other Contingencies and Commitments

Federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. OSF is subject to these regulatory efforts. The laws and regulations governing the Medicare, Medicaid, and other government healthcare programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for OSF and other healthcare organizations. Recently, the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. OSF maintains a compliance program designed to educate employees and to prevent, detect, and correct possible violations. Compliance review may result in liabilities to government healthcare programs, which could have an adverse impact on OSF's net patient service revenue.

(c) Tax Exemption for Sales Tax and Property Tax

Under Illinois law, not-for-profit hospitals are eligible for property tax exemptions under two provisions of the Property Tax Code. In general, facilities owned prior to June 2012 that are recognized by the Illinois Department of Revenue as exempt, such as SAMC, SFMC, SJJWAMC, SJMC, SMMC, and

(Continued)

various ancillary facilities, hold such exemptions as institutions of public charity that use their properties exclusively for charitable purposes. Facilities built or acquired after that date that are recognized as exempt, such as HFMC, HMMC, LCMMC, SAHC, SCMC, SEMC, SHMC, SLMC, SPMC, and various ancillary facilities, hold their exemptions under a section of the Property Tax Code applicable only to not-for-profit hospitals, which among other things requires such hospitals to certify annually that in the prior year they provided to low-income and underserved individuals qualified services with a value at least equal to the estimated tax liability of their tax-exempt property. This latter provision of the law was the subject of a constitutional challenge but was found to be constitutional by the Illinois Supreme Court, so long as the not-for-profit hospital shows that it uses the applicable property exclusively for charitable purposes. OSF has not accrued any liability for property taxes and maintains the position that all of the facilities listed above are exempt from property taxes. Under Illinois law, sales tax exemptions are granted to not-for-profit hospitals in the same manner as described above.

OSF applied for and was granted in 2021, retroactive to February 1, 2020, a property tax exemption for the LCMMC campus and related ancillary facilities. Certain taxing bodies have challenged in administrative proceedings the Illinois Department of Revenue's decision to grant exemption to certain ancillary facilities. The proceedings are in the discovery phase and OSF is vigorously defending the exempt status of LCMMC's ancillary facilities. In addition, the Peoria Public Schools District 150 has challenged in four separate administrative proceedings the Illinois Department of Revenue's grant of property tax exemptions to the Jump Trading Education and Simulation Center (a facility located on its own parcel on the SFMC campus), the OSF OnCall digital health center, a pediatric rehabilitation facility, and a medical office building (also located on its own parcel on the SFMC campus), each located in Peoria. These proceedings are all in the discovery phase and OSF is vigorously defending the exempt status of these properties.

(d) Investment Risk and Uncertainties

OSF invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

(19) Financial Responsibility Standard

OSF participates in federal Title IV student financial assistance programs, which require it to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR 668.171. The criteria for private institutions include the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR 668.172, using audited financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: Primary Reserve, Equity, and Net Income. These ratios utilize the following financial data of the Institution, which are not otherwise presented in the financial statements or other notes to the financial statements, as of and for the year ended September 30, 2023:

(In thousands)

Required input per standards	Ratio uses		Input amount
Current portion of long-term debt post-implemenation	NA	$	39,242
Long-term debt, net of current portion, post-implemenation	NA		1,708,330
Less: Line of Credit for operations	NA		(50,000)
Total long-term debt – for long-term purposes	Primary reserve	$	1,697,572
Annuities with donor restriction	Primary reserve	$	456
Net assets with donor restrictions: time or purpose restriction	NA		85,579
Net assets with donor restrictions: restricted in perpetuity	Primary reserve		97,326
Total net assets with donor restriction		$	183,361
Total expenses	NA	$	4,092,429
Add: Income taxes	NA		4,702
Add: Net settlement of derivative instruments	NA		1,456
Less: Investment gain appropriated for spending	NA		(209,277)
Add: Other losses	NA		8,406
Total expenses and losses without donor restrictions	Net income	$	3,897,716
Total operating revenue	NA	$	4,093,620
Add: Change in fair value of derivative instruments	NA		6,696
Add: Net assets released from restrictions used for the purchase of property and equipment	NA		3,406
Add: Net distributions from noncontrolling share holders	NA		10,289
Total revenue and gains without donor restrictions	Net income	$	4,114,011

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(20) Related Parties

Members of the Board of Directors, officers, and employees are subject to OSF's conflict of interest policies, under which business and financial relationships must be disclosed and are subject to review and approval. OSF provides various administrative shared services to the Parent. As of September 30, 2023 and 2022, there is a receivable from the Parent related to the timing of the shared services between OSF and the Parent that resulted in a balance due from the Parent of $340 and $311 at September 30, 2023 and 2022, respectively, which is reflected as a component of receivables – other in the accompanying consolidated balance sheets. OSF transferred $350 and $800 during 2023 and 2022, respectively, to the Parent as an equity transfer and during 2023, the Parent transferred $1,550 to OSF as an equity transfer to cover capital and operating costs to fit out the new SJMC convent. These equity transfers are reflected as transfer from/to affiliate in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

(21) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, OSF evaluated subsequent events after the consolidated balance sheet date of September 30, 2023 through December 21, 2023, which was the date the consolidated financial statements were issued, noting no other subsequent events requiring recording or disclosure in the consolidated financial statements or related notes to the consolidated financial statements.

On November 16, 2023, OSF purchased various assets, including a hospital campus in Peru, Illinois and buildings for primary care in Spring Valley and Oglesby, Illinois. The total purchase price was $32,350. OSF plans to open the hospital location as a second campus of SEMC during the Spring of 2024.

During November 2023, a CMS final rule was issued related to the lump sum remedy payments for 340B acquired drugs to 340B providers. OSF is expected to receive approximately $16,000 in payments related to years 2018 through 2022 during the year ended September 30, 2024. None of these funds were recognized during the year ended September 30, 2023.