SOUTH DAKOTA
DEPARTMENT
OF PUBLIC SAFETY
prevention ~ protection ~ enforcement
Emergency Management

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May 5, 2025

Avera Health
Nick Hoeltzner
3900 W Avera Drive
Sioux Falls, SD 57108

Dear Mr. Hoeltzner:

The Department of Public Safety has received a copy of your audit report for the year ending in June 2024, which included one audit finding pertinent to the Public Assistance Grants administered through our department. OMB Uniform Guidance 2 CFR §200.521 requires that we must issue a management decision within 6 months of acceptance of the audit report.

Finding 2024-002: Activities Allowed and Allowable Costs. Testing over activities allowed and allowable costs identified instances where the monthly census data for one of the physical locations included within the calculation of contracted labor related to Covid-19 which includes multiple locations was not able to be agreed directly to monthly census data obtained from Avera as part of the audit process.

A lack of controls related to the maintenance of the original monthly census data used in the calculation of contracted labor related to Covid-19 resulted in a reasonable possibility that Avera would not be able to detect and correct noncompliance in a timely manner.

The organization will review and strengthen the controls surrounding activities allowed and allowable costs compliance. Specifically, Avera Health will update its process of using census data reporting in grant projects as the census data is a live data set within the Avera system. For future projects of this nature, the Organization will download a copy of the data set to a calculation support folder so that it has an exact record of the data used in the various grant calculations and the exact data can be referenced later if the live data set changes.

Spoke to Nick Hoeltzner on 04/29/2025 and he acknowledged they have created procedures to download data at specific points in time that will allow them to reference it later. This aligns with the action plan and timeline they provided.

Based on our review, it appears you have implemented best practices to address the audit findings and therefore we consider this issue to be resolved. If in the future, you decide to change your procedure please provide us with a copy for our review.

Sincerely,

Dustin Hight
Recovery Branch Chief

STATE OF SOUTH DAKOTA
DEPARTMENT OF LEGISLATIVE AUDIT

427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE, SD 57501-5070
(605) 773-3595

RUSSELL A. OLSON
AUDITOR GENERAL

Date: May 8, 2025

To: SD Department of Public Safety

Re: Audit Report on – Avera Health
As of and for the year ended June 30, 2024
By: Eide Bailly, LLP, CPAs

We have accepted the final report on the audit of the above-named entity conducted under the requirements of OMB Uniform Guidance.

OMB Uniform Guidance requires the State of South Dakota, as a direct recipient of federal assistance who provides federal awards to a subrecipient, to:

1. Ensure that subrecipients expending $750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Uniform Guidance for that fiscal year.
2. Ensure that the subrecipient takes timely and appropriate corrective action when the audit report discloses instances of noncompliance with federal laws and regulations.
3. Consider whether this subrecipient audit necessitates adjustment of your program records.

The accompanying audit report is submitted to you to help fulfill these requirements.

The report does not identify any audit findings or questioned costs pertaining to federal award programs (ALN 97.008) administered by your agency/department that are required to be reported in accordance with OMB Uniform Guidance, §200.516(a).

The report does identify audit finding(s) and/or questioned costs pertaining to federal award programs (ALN 97.036) administered by your agency/department that are required to be reported in accordance with OMB Uniform Guidance, §200.516(a). See reference to the finding(s) on page 12 with the finding related to (ALN 97.036) being on page 15 of the federal grant section of the audit report. Note: The federal award program (ALN 97.036) was included on the Avera Health Schedule of Expenditures of Federal Awards as a direct award rather than a pass through from the SD Department of Public Safety. We did contact both Avera Health and the Audit Firm making them aware of this.

Please contact us if you have any questions.

Sincerely,

Russell A. Olson
Auditor General

RAO:sld

Enclosure

Consolidated Financial Statements
June 30, 2024 and 2023

Avera Health

Avera Health

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EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
Avera Health
Sioux Falls, South Dakota

Report on the Audit of the Consolidated Financial Statements

Opinion

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

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Avera Health, as of June 30, 2024 and 2023, and the consolidated results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 Avera Health'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 Avera Health's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2024, on our consideration of Avera Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Avera Health's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Avera Health's internal control over financial reporting and compliance.

Ede Bailly LLP

Sioux Falls, South Dakota
October 22, 2024

Avera Health
Consolidated Balance Sheets
June 30, 2024 and 2023
(In Thousands)

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	$ 89,667	$ 83,029
Assets limited as to use		
Under indenture and contractual agreements	126,636	15,511
Designated reserves	34,820	44,721
Receivables		
Patients and residents	295,790	301,449
Other	106,413	100,960
Supplies	78,744	69,377
Prepaid expenses and other	41,278	29,863
Total current assets	773,348	644,910
Assets Limited as to Use		
Under indenture and contractual agreements	156,862	51,091
Designated reserves	1,676,074	1,362,425
Total noncurrent assets limited as to use	1,832,936	1,413,516
Property and Equipment, Net	1,040,805	1,054,211
Other Assets		
Custodial funds held for uncontrolled affiliates	53,898	57,873
Investments in affiliated organizations	14,565	19,117
Goodwill	100,966	100,183
Intangible assets, net	4,150	6,451
Right of use operating lease assets	112,449	121,495
Noncurrent receivables	15,342	16,412
Deferred compensation	116,427	97,613
Other	12,648	12,713
Total other assets	430,445	431,857
Total Assets	$ 4,077,534	$ 3,544,494

(In Thousands)

	2024	2023
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	$ 18,017	$ 18,342
Accounts payable	103,069	88,110
Accrued salaries, benefits, and withholdings	121,617	104,601
Interest payable	9,384	9,153
Estimated insurance claims payable	22,601	37,345
Estimated third-party payor settlements	16,843	14,690
Right of use operating lease obligations	8,612	8,700
Refundable advances	-	65
Other	19,948	29,310
Total current liabilities	320,091	310,316
Noncurrent Liabilities		
Long-term debt, less unamortized premiums, discounts, and debt issuance costs	842,091	610,588
Right of use operating lease obligations	108,329	114,374
Custodial funds held for uncontrolled affiliates	53,898	57,873
Estimated insurance claims payable	8,554	11,927
Derivative liability	1,826	2,587
Accrued pension	94,857	142,722
Accrued deferred compensation	116,427	97,613
Other	14,056	16,853
Total noncurrent liabilities	1,240,038	1,054,537
Total liabilities	1,560,129	1,364,853
Net Assets		
Without donor restrictions		
Undesignated	2,420,210	2,087,179
Noncontrolling interest	20,769	24,691
Total without donor restrictions	2,440,979	2,111,870
With donor restrictions	76,426	67,771
Total net assets	2,517,405	2,179,641
Total Liabilities and Net Assets	$ 4,077,534	$ 3,544,494

(In Thousands)

	2024	2023
Revenues, Gains, and Other Support		
Patient and resident service revenue	$ 2,596,029	$ 2,317,751
Premium revenue	305,553	321,586
Other revenue	316,870	252,778
COVID-19 stimulus revenue	8,887	10,875
Total revenues, gains, and other support	3,227,339	2,902,990
Expenses		
Salaries, wages, and benefits	1,604,892	1,532,536
Supplies	698,574	611,846
Other	484,701	428,678
Claims expense	107,472	144,296
Interest	25,112	23,551
Depreciation and amortization	123,836	116,570
Total expenses	3,044,587	2,857,477
Operating Income	182,752	45,513
Other Income (Expense)		
Investment income - realized	25,535	9,369
Investment income - unrealized	131,500	87,461
Gain on advance refunding of bonds	1,844	-
Net periodic pension and deferred compensation	(23,793)	(23,552)
Other nonoperating, net	(32,762)	(22,737)
Change in fair value of interest rate swaps not designated as hedges	761	2,199
Reclassification of accumulated losses on interest rate swaps	(324)	(346)
Total other income (expense)	102,761	52,394
Revenues in Excess of Expenses	285,513	97,907
Distributions to noncontrolling interests	(5,434)	(1,516)
Reclassification of accumulated losses on interest rate swap	324	346
Grants and contributions restricted for capital purposes	3,154	9,649
Net assets released from restrictions for purchases of property and equipment	2,494	5,939
Adjustments to the funded status of pension plans	43,614	(142,722)
Other changes in net assets	(556)	(2,137)
Change in Net Assets without Donor Restrictions	$ 329,109	$ (32,534)

(In Thousands)

	2024	2023
Net Assets without Donor Restrictions		
Revenues in excess of expenses	$ 285,513	$ 97,907
Distributions to noncontrolling interests	(5,434)	(1,516)
Reclassification of accumulated losses on interest rate swap	324	346
Grants and contributions restricted for capital purposes	3,154	9,649
Net assets released from restrictions for purchases of property and equipment	2,494	5,939
Adjustments to the funded status of pension plans	43,614	(142,722)
Other changes in net assets	(556)	(2,137)
Change in net assets without donor restrictions	329,109	(32,534)
Net Assets with Donor Restrictions		
Contributions restricted for specific projects and programs	6,831	7,020
Contributions for endowment funds	386	524
Investment income	7,142	4,227
Net assets released from restrictions	(5,704)	(11,377)
Change in net assets with donor restrictions	8,655	394
Change in Net Assets	337,764	(32,140)
Net Assets, Beginning of Year	2,179,641	2,211,781
Net Assets, End of Year	$ 2,517,405	$ 2,179,641

(In Thousands)

	2024	2023
Operating Activities		
Change in net assets	$ 337,764	$ (32,140)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Net realized and unrealized gains on investments	(147,594)	(93,903)
Change in fair value of interest rate swaps	(761)	(2,199)
Depreciation and amortization	125,132	118,349
Impairment of intangible assets	1,687	-
Loss on disposal of property and equipment, net	3,567	107
Losses on equity method investments	8,138	3,052
Distributions from affiliated organizations	1,919	948
Restricted grants and contributions	(10,371)	(17,193)
Distributions to noncontrolling interests	5,434	1,516
Gain on advance refunding of bonds	(1,844)	-
Changes to the funded status of pension plans	(47,865)	142,722
Change in assets and liabilities		
Receivables	206	(28,394)
Supplies	(9,367)	868
Prepaid expenses and other assets	(11,415)	7,096
Right of use operating lease assets and obligations, net	2,913	78
Accounts payable	12,922	(7,121)
Estimated third-party payor settlements	2,153	(1,022)
Accrued expenses	(803)	(87,795)
Contract liability - Medicare advanced payments	-	(3,326)
Refundable advances	(65)	(3,431)
Other current liabilities	(9,362)	(15,220)
Net Cash from (used for) Operating Activities	262,388	(17,008)
Investing Activities		
Purchases of investments	(672,793)	(258,771)
Proceeds from sales and maturities of investments	404,614	277,069
Purchase of property and equipment	(115,023)	(120,553)
Proceeds from disposal of equipment	629	806
Cash paid in business acquisitions, net	(1,250)	(262)
Investment in affiliated organizations	(6,131)	(5,529)
Decrease in other assets	38	11,553
Net Cash used for Investing Activities	(389,916)	(95,687)

(In Thousands)

	2024	2023
Financing Activities		
Proceeds from issuance of long-term debt	$ 256,287	$ 5,798
Scheduled principal payments on long-term debt	(18,361)	(32,331)
Payments for mandatory tender of bonds for refinancing and other accelerated debt payments	(116,354)	(103,150)
Proceeds from refinancing of bonds	116,052	101,895
Payment of debt issuance costs	(2,423)	(143)
Change in other noncurrent liabilities	(2,171)	4,001
Distributions to noncontrolling interests	(5,434)	(1,516)
Change in other noncurrent receivables	1,070	(3,774)
Restricted grants and contributions	10,371	17,193
Net Cash from (used for) Financing Activities	239,037	(12,027)
Net Change in Cash, Cash Equivalents, and Restricted Cash	111,509	(124,722)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	184,581	309,303
Cash, Cash Equivalents, and Restricted Cash, End of Year	$ 296,090	$ 184,581
Reconciliation of Cash, Cash Equivalents, and Restricted Cash to the Consolidated Balance Sheets		
Cash and cash equivalents in current assets	$ 89,667	$ 83,029
Cash and cash equivalents in assets limited as to use	206,423	101,552
Total cash, cash equivalents, and restricted cash	$ 296,090	$ 184,581

(In Thousands)

	2024	2023
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest, net of amounts capitalized of $963 in 2024 and $0 in 2023	$ 27,060	$ 25,816
Business acquisitions		
Receivables and other assets	-	15
Property and equipment, net	400	67
Goodwill	850	750
Liabilities	-	(570)
Net cash paid	$ 1,250	$ 262
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Accounts payable for purchase of property and equipment	$ 5,863	$ 3,769
Right of use assets recognized in exchange for operating lease obligations	2,906	47,214

Note 1 - Organization and Significant Accounting Policies

Organization

Avera Health (the Organization), a sponsored ministry of the Benedictine Convent of the Sacred Heart of Yankton, South Dakota (OSB) and Sisters of the Presentation of the Blessed Virgin Mary of Aberdeen, South Dakota, (PBVM), is a health ministry based in Sioux Falls, South Dakota.

Avera Health owns, sponsors, and operates hospital and health care facilities in the Dakotas, Iowa, Nebraska, and Minnesota. Generally, the sponsored organizations are exempt from federal and state income taxes. These organizations provide a variety of health care related activities and other benefits to the communities in which they operate. Health care services include inpatient, outpatient, sub-acute, home-based care, long-term care, clinical, and telemedicine services.

Avera Health is a health ministry rooted in the Gospel. The mission of Avera Health is to make a positive impact in the lives and health of persons and communities by providing quality services guided by Christian values. The Organization operates with a vision to improve the health care of the people it serves through a regionally integrated network of persons and institutions.

As part of a system-wide corporate financing plan, Avera Health established an Obligated Group to access the capital markets and make loans to its members. Obligated Group members are jointly and severally liable for the long-term debt outstanding under the Master Trust Indenture. The Obligated Group's net assets without donor restrictions represent approximately 97% of the consolidated net assets without donor restrictions of Avera Health as of June 30, 2024 and 2023.

Principles of Consolidation

The consolidated financial statements for the years ended June 30, 2024 and 2023 include the accounts of the Organization and the following sponsored organizations and controlled subsidiaries. Significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Obligated Group

- Avera Health
- Avera McKennan and Subsidiaries (West 69th Street LLC, Sioux Falls Hospital Management LLC, 66 2/3% of Heart Hospital of South Dakota LLC, Alumend LLC, and Alucent Biomedical, Inc. (65.4% ownership as of October 1, 2020, increasing to 70.2% as of April 1, 2023))
- Sacred Heart Health Services d/b/a Avera Sacred Heart Hospital and Subsidiaries (Valley Health Services)
- Avera St. Luke's and Subsidiary (51% of Surgical Associates Endoscopy LLC)
- Avera Queen of Peace
- Avera Marshall and Subsidiaries (Avera Tyler and Avera Granite Falls)
- Avera St. Mary's and Subsidiary (Avera Gettysburg)

- Avera St. Anthony's Hospital
- Avera St. Benedict Health Center
- Avera Holy Family
- Avera @ Home (Avera Home Medical Equipment, LLC, 80% of Kore Cares In Home Services, LLC)

Non-Obligated Group

- Avera Health Plans, Inc.
- Accounts Management, Inc. (75% owned subsidiary until June 28, 2024, now 100% owned)
- Avera Property Insurance, LLC
- South Dakota State Medical Holding Company, Inc. d/b/a Dakotacare and Subsidiary (Dakotacare Administrative Services Inc.)

Accountable Care Organization (ACO) Participation

Avera Health participates in Medicare Shared Savings ACO programs, that include risk sharing. Avera Health and its Obligated Group member affiliates control each of the ACO organizations through a majority or 100% ownership interest. The organizations controlled by Avera Health include the following:

- Caravan Health ACO 15 LLC d/b/a Prairie Vista Care Organization
- Caravan Health ACO 41 LLC d/b/a Prairie View Care Organization

Shared savings realized by Avera Health have not been material for the years ended June 30, 2024 and 2023.

Income Taxes

Avera Health and most of its sponsored organizations are considered nonprofit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. These organizations are required to file a Return of Organization Exempt from Income Tax (Form 990) with the Internal Revenue Service (IRS). Avera Health and certain sponsored organizations also file an Exempt Organization Business Income Tax Return (Form 990T) with the IRS to report their unrelated business taxable income.

Avera Health and its sponsored organizations believe that they have appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Certain consolidated entities are subject to federal income taxes. Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting basis of assets and liabilities based on enacted tax rates and laws. Deferred tax assets and liabilities are not material as of June 30, 2024 and 2023. The Organization paid an immaterial amount of federal and state income taxes for the years ended June 30, 2024 and 2023.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less, excluding assets limited as to use.

Receivables

Patient and resident receivables and other receivables are uncollateralized customer and third-party obligations. Other receivables include amounts due from customers for managed and professional services, retail operations, health insurance, and other ancillary business lines. The Organization generally does not charge interest on delinquent receivables. Payments of receivables are allocated to the specific claims identified on the remittance advice, or, if unspecified, are applied to the earliest unpaid claim. The Organization's patient and other receivable balances were $269,387 and $104,628 as of July 1, 2022.

Patient and resident accounts receivable are stated net of any explicit and implicit price concessions and then further reduced by an allowance for credit losses. In evaluating the collectability of accounts receivable, the Organization analyzes accounts for adverse changes in a patient's, third-party payor's, or customer's ability to pay that may have occurred subsequent to recognition. Other receivables are recorded net of allowances for credit losses of $1,553 and $1,383 as of June 30, 2024 and 2023. Management regularly reviews specific data about receivable balances and its past history with similar cases to estimate the appropriate allowance for credit losses.

The Organization has not adjusted the promised amount of consideration from patients, residents, and third-party payors for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to a patient and the time that the patient, resident, or third-party payor pays for that service will be one year or less. However, the Organization does, in certain instances, enter into payment arrangements with patients and residents that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Supplies

Supplies are generally valued at lower of cost (first-in, first-out) or net realizable value.

Investments and Investment Income

Investments with readily determinable market values are stated at fair value. The fair value of all debt and equity securities with readily determinable fair values are based on quotations obtained from national and foreign securities exchanges. Certificates of deposit are recorded at historical cost, plus accrued interest. The Organization has adopted the fair value election which permits entities to choose to measure many financial instruments and certain other items at fair value. Investment income or loss (including interest income, dividends, net changes in unrealized gains and losses, and net realized gains and losses) is included in the performance indicator unless the income or loss is restricted by donor or law. Investment income on funds held under indenture agreements and board designated insurance reserves is recorded as other operating revenue while all other investment income is recorded as nonoperating revenue in the consolidated statements of operations.

The Organization has a portion of its holdings in alternative investments, which are not readily marketable. These alternative investments include partnerships and other interests that invest in multi-strategy funds, collective investment funds, private equity funds, hedge funds, private debt funds, and real asset funds, among others. Many of these alternative investments have fair values that are determined using the net asset value (NAV) provided by the investment manager. NAV is a practical expedient to determine the fair value of investments that do not have readily determinable fair values and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Certain alternative investment holdings in real estate and private equity are carried at cost or under the equity method if fair value measures are not easily determinable.

Assets Limited as to Use

Assets limited as to use include designated asset reserves set aside by governing Boards for operating reserves, future capital improvements, debt redemption, and other purposes over which the Boards retain control and may at their discretion subsequently use for other purposes; assets held as designated capital surplus reserves for the Organization’s health insurance companies; assets donated for endowment or other specific purposes; assets held by a trustee under indenture agreements or restricted under contractual agreements; and assets held by foundations and trusts. Assets limited as to use that are available for obligations classified as current liabilities are reported in current assets.

Physician and Employee Notes Receivable and Physician Guarantees

Certain consolidated entities have entered into notes receivable and guaranteed salary commitments with certain physicians and employees. These contracts are limited in duration and serve the purpose of recruiting new physicians and employees and ensuring access to physician and patient care services in the Organization's operations. Notes receivable totaling approximately $27,052 and $24,561 at June 30, 2024 and 2023 are recorded as other accounts receivable and noncurrent receivables in the consolidated balance sheets. Management has evaluated expected credit losses related to these receivables and has determined they are not material to the consolidated financial statements. Assets recorded for the value of future physician services under guarantee arrangements are recorded as other current and noncurrent receivables. Liabilities recorded in connection with guaranteed salary commitments are included with other current and noncurrent liabilities in the consolidated balance sheets.

Contributions Receivable

Unconditional promises to give are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Unconditional promises to give, less an allowance for estimated uncollectible amounts, are recorded as contributions receivable and net assets with donor restrictions in the year the promise is made, unless the donor explicitly states that the gift is to support current activities. Unconditional promises that are expected to be collected in more than one year are reported at fair value initially and in subsequent periods because the Organization has elected that measure in accordance with the fair value option under accounting principles. Management believes that the use of fair value reduces the cost of measuring unconditional promises to give in periods subsequent to their receipt and provides equal or better information to users of its consolidated financial statements than if those promises were measured using present value techniques and historical discount rates. Contribution receivables are included in other current and noncurrent receivables in the consolidated balances sheets.

Fair Value Measurements

The Organization has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

Property and Equipment

Property and equipment acquisitions are recorded at cost. The Organization and its consolidated affiliates have generally adopted policies with $5,000 (not in thousands) as the minimum threshold to determine whether assets will be capitalized. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Right of use assets under finance lease obligations are amortized using the straight-line method over the shorter of the lease term or their respective estimated useful lives. Amortization is included in depreciation and amortization in the consolidated financial statements. The estimated useful lives of property and equipment are as follows:

Land improvements	3-25 years
Buildings, improvements, and rental property	5-100 years
Equipment	3-20 years

Gifts of long-lived assets, such as land, buildings, or equipment are reported as additions to net assets without donor restrictions and are excluded from the performance indicator 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 net assets with donor restrictions. 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.

Interest cost is capitalized as part of the cost of constructing capital assets, net of any interest income earned on unexpended bond proceeds borrowed for a specific project, during the construction period. The Organization capitalizes the direct costs, including internal costs, associated with the implementation of new information systems for internal use. Capitalized amounts are amortized over the estimated lives of the related assets.

Property and equipment includes rental property and property held for future use which are not actively used in the Organizations operations. Rental property is depreciated over the estimated useful life of the property. Rental income from the properties is not material to the consolidated financial results of the Organization.

Investments in Affiliated Organizations

Investments in entities in which the Organization has the ability to exercise significant influence over operating and financial policies but does not have operational control are recorded under the equity method of accounting. Under the equity method, the initial investment is recorded at cost and adjusted to recognize the Organization’s share of earnings and losses of those entities, net of any additional investments or distributions. The Organization’s share of net earnings or losses of the entities is included in other operating revenue. Investments in affiliated organization that do not meet the requirements under the equity method of accounting and without readily determinable fair values are measured at cost minus impairment (if any) and adjusted for any observable price changes in orderly transactions of identical securities or similar securities of the same issuer. Distributions from investments in affiliated organizations recorded at cost are recorded as non-operating income.

Goodwill

Goodwill represents the excess of cost over the fair value of assets acquired from business acquisitions. On an annual basis and at interim periods when circumstances require, the Organization tests the recoverability of its goodwill. The Organization recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its fair value. The Organization recorded no goodwill impairment losses for the years ended June 30, 2024 and 2023.

Intangible Assets

Intangible assets consist of patient records, non-compete agreements, and patents associated with business acquisitions. Intangible assets are amortized over their estimated economic life which range from 5 to 20 years. Intangible assets are considered annually for indicators of impairment. There were intangible asset impairment losses of $1,687 and $0 recognized for the years ended June 30, 2024 and 2023.

Impairment of Long-Lived Assets

Avera Health considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying value of the asset is appropriate. There were no long-lived asset impairment losses recognized for the years ended June 30, 2024 and 2023.

Estimated Malpractice Costs, Health Insurance and Workers' Compensation

Avera Health has established self-insurance programs for the majority of its employee health and dental insurance, workers' compensation benefits for employees, and for professional and general liability risks. Annual self-insurance expense under these programs is based on past claims experience and projected losses. Actuarial estimates of uninsured losses for each program at June 30, 2024 and 2023 have been accrued as liabilities and include an estimate of the ultimate costs for both reported claims and claims incurred but not reported. Avera Health also has insurance coverage in place for amounts in excess of the self-insured retention for workers' compensation and professional and general liabilities.

Debt Issuance Costs

Debt issuance costs are amortized over the period the related obligation is outstanding using the effective interest method. Debt issuance costs are included within long-term debt in the consolidated balance sheets. Amortization of debt issuance costs is included in interest expense in the accompanying consolidated statements of operations.

(Dollar Amounts in Thousands)

Noncontrolling Interest

The accompanying consolidated financial statements reflect the adoption of accounting guidance requiring that noncontrolling interests in subsidiaries be reported as net assets in the consolidated financial statements. The guidance also requires that net income attributable to the parent and noncontrolling interests be clearly identifiable; that changes in a parent's ownership interest be accounted for as equity transactions; and that disclosures be expanded to clearly identify and distinguish between the interest of the parent and interests of the noncontrolling owners.

The changes in consolidated net assets without donor restrictions attributable to the Organization's controlling interest and noncontrolling interests for the years ended June 30, 2024 and 2023 are as follows:

	Net Assets without Donor Restrictions		
	Controlling Interest	Noncontrolling Interests	Total
Balance, July 1, 2022	$ 2,117,412	$ 26,992	$ 2,144,404
Revenue in excess of (less than) expenses	98,652	(745)	97,907
Distributions to noncontrolling interests	-	(1,516)	(1,516)
Reclassification of accumulated losses on interest rate swaps	346	-	346
Grants and contributions restricted for capital purposes	9,649	-	9,649
Net assets released from restrictions for purchases of property and equipment	5,939	-	5,939
Adjustments to the funded status of pension plans	(142,722)	-	(142,722)
Other changes in net assets	(2,097)	(40)	(2,137)
Balance, June 30, 2023	2,087,179	24,691	2,111,870
Revenue in excess of expenses	283,830	1,683	285,513
Distributions to noncontrolling interests	-	(5,434)	(5,434)
Reclassification of accumulated losses on interest rate swaps	324	-	324
Grants and contributions restricted for capital purposes	3,154	-	3,154
Net assets released from restrictions for purchases of property and equipment	2,494	-	2,494
Adjustments to the funded status of pension plans	43,614	-	43,614
Other changes in net assets	(385)	(171)	(556)
Balance, June 30, 2024	$ 2,420,210	$ 20,769	$ 2,440,979

Net Assets with Donor Restrictions

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Patient and Resident Service Revenue

Patient and resident service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient and resident care. These amounts are due from patients or residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Organization bills the patients or residents and third-party payors several days after the services are performed and/or the patient or resident is discharged from the facilities. Revenue is recognized as performance obligations are satisfied. Amounts received before recognition are reported as a contract liability.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patient care in the hospital and clinic settings and residents receiving skilled nursing services. The Organization measures the performance obligation associated with inpatient acute services from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. The Organization measures the performance obligation for outpatient and medical clinic services over the patient encounter, which is generally short in duration. The Organization measures the performance obligation associated with residents receiving skilled nursing services from the beginning of the performance period, generally admission or the beginning of the month, to the sooner of completion of services to that resident, discharge or the end of the month. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and the Organization does not believe it is required to provide additional goods or services to the patient or resident.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Organization has elected to not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services or skilled nursing services to residents at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged or for residents, the sooner of completion of services, discharge or the end of the month, which generally occurs within days or weeks of the end of the reporting period.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual price concessions provided to third-party payors, discounts provided to uninsured patients and residents in accordance with the Organization's policy, and/or implicit price concessions provided to uninsured patients and residents. The Organization determines its estimates of contractual price concessions and discounts based on contractual agreements, its discount policies and historical experience applied to a portfolio of accounts. The Organization determines its estimate of implicit price concessions based on its historical collection experience with the respective class of patients and residents.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations. The Organization had estimated third-party payor settlements payable of $15,712 as of July 1, 2022.

Consistent with the Organization's mission, care is provided to patients and residents regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and residents and patients and residents with other uninsured balances (for example, co-pays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and residents and the amounts the Organization expects to collect based on its collection history with those patients and residents.

Premium Revenue

Premium revenue represents gross premiums earned in the year for which services are covered for employer groups and individual members. Premiums are recognized in the contractual coverage period in which members are entitled to receive services. Premiums received in advance of a coverage period are deferred and recorded as other current liabilities. When the expected claim payments and administrative expenses exceed the premiums to be collected for the remainder of the contract period, a premium deficiency reserve is recorded for the deficiency, with a corresponding charge to operations. A premium deficiency reserve of $0 and $3,059 was included in other current liabilities as of June 30, 2024 and 2023.

Other Operating Revenues

Other revenue is recognized at an amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing goods and services. The amounts recognized reflect consideration due from customers, third-party payors, and others. Primary categories of other revenue include income from joint ventures, retail pharmacy and other retail revenue, contract 340B revenue, operating grant and contribution revenue, outreach revenue, research revenue, cafeteria revenue, certain facility rent and lease revenue, and other.

Charity Care and Community Benefit

The Organization provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Total direct and indirect costs related to these foregone charges were approximately $63,767 and $24,753 at June 30, 2024 and 2023, which was determined based on an average ratio of cost to gross charges or underlying cost accounting records related to the services provided.

During the year ended June 30, 2024, the Organization adjusted the qualifying criteria under the charity care policy, which resulted in a reclassification of accounts considered bad debt in previous years that now qualified as presumptive charity care under the adjusted policy. The initial implementation of the policy change resulted in additional charges of approximately $90,194 qualifying under the policy, and the total direct and indirect costs related to those charges was approximately $32,096. The change had no net impact on the consolidated statement of operations for the year ended June 30, 2024.

The Organization also provides community benefit health activities at less than or at no cost to support those in the area served. These activities include, but are not limited to, community education and health services, health professionals' education, subsidized services, cash and in-kind donations to community organizations, health research, and community building activities. For the years ended June 30, 2024 and 2023, specific examples include free health clinic services, diabetes education and management programs; 24-hour Medical Call Center; clinical settings for resident physicians and nursing, radiology, and pharmacy students; community blood bank partnerships; subsidized emergency transportation; medication, transportation and lodging support for needy patients and families; community screenings; and clinical research.

Performance Indicator

Revenues in excess of expenses is the performance indicator and excludes changes in interest in net assets of foundations and trusts related to distributions for capital expenditures or donor-restricted purposes, changes in the net assets attributable to noncontrolling interests, changes in the fair value of effective interest rate swap hedges, transfers of assets to and from related parties for other than goods and services, and grants and contributions restricted for capital purposes, including assets acquired using contributions which were restricted by donors.

Donor-Restricted Gifts

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to assets without donor restrictions and reported in the consolidated statements of changes in net assets as net assets released from restrictions.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Market Risk

The Organization's policy for managing risk related to its exposure to variability in interest rates and other relevant market rates and prices include consideration of entering into derivative instruments (freestanding derivatives), or contracts or instruments containing features or terms that behave in a manner similar to derivative instruments (embedded derivatives) in order to mitigate its risks. The Organization recognizes all derivatives as either assets or liabilities in the consolidated balance sheets and measures those instruments at fair value.

Advertising Costs

The Organization expenses advertising costs as they are incurred. During the years ended June 30, 2024 and 2023, advertising expenses were $11,348 and $11,927.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in Note 14, which presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, such as depreciation, interest, and other occupancy costs, and certain employee benefit costs are allocated to a function based on square footage, usage, salaries or other methods.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Adoption of New Accounting Standard

As of July 1, 2023, the Organization adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including trade and loan receivables, and held to maturity debt securities. CECL requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The update also requires that credit losses on available-for-sale debt securities be presented as an allowance rather than a write-down of the security. This standard provides financial statement users with more decision-useful information about the expected losses on financial instruments. The adoption of this standard did not materially impact the Organization's financial position, or results of operations.

Accounting Pronouncements

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. This guidance was issued to address the inconsistency in accounting related to recognition of an acquired contract liability and the payment terms and their effect on subsequent revenue by the acquirer. The amendments in this update require that the acquirer recognize, and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606, as if it had originated the contracts, generally consistent with how they were recognized and measured in the acquiree's financial statements. This guidance is effective for the Organization beginning July 1, 2024. The Organization will apply this guidance in consideration of any future business combinations that may occur on or after July 1, 2024.

Note 2 - Liquidity and Availability

To efficiently manage liquidity and capital, Avera Health continually determines the necessary amount of funds to hold in cash and cash equivalents to meet operational needs. Cash in excess of daily operating requirements is generally invested in board designated operating or other reserve accounts to generate higher yielding returns while preserving high liquidity and capital preservation.

(Dollar Amounts in Thousands)

A reconciliation to arrive at financial assets available for general expenditure within one year of the balance sheet date is summarized in the following table as of June 30:

	2024	2023
Cash and cash equivalents	$ 89,667	$ 83,029
Assets limited as to use	1,994,392	1,473,748
Receivables - current	402,203	402,409
Custodial funds held for uncontrolled affiliates	53,898	57,873
Deferred compensation	116,427	97,613
Total financial assets	2,656,587	2,114,672
Less amounts not available to be used within one year		
Donor restricted endowment corpus	(12,080)	(11,694)
Assets under indenture and contractual agreements	(283,498)	(66,602)
Illiquid investments	(14,453)	(26,623)
Custodial funds held for uncontrolled affiliates	(53,898)	(57,873)
Funds held in trust for deferred compensation	(116,427)	(97,613)
	$ 2,176,231	$ 1,854,267

Avera Health has certain donor-restricted assets limited as to use which are available for general expenditure within one year in the normal course of operations. Avera Health also has assets limited as to use under indenture and contractual agreements that are available for debt service or capital expenditure that are expected to be used within one year of the balance sheet date, but Avera Health has concluded these are not available for general expenditure based on their restricted uses. Accordingly, these assets have been excluded in the liquidity totals above.

A portion of Avera Health's investment portfolio is invested in alternative investments that are not liquid within one year. Avera has other financial assets that are not considered available for general obligations within one year which include assets held under indenture and contractual arrangements that are not available or not expected to be used in the next year, endowment funds to be held in perpetuity, custodial funds held for uncontrolled affiliates, and investments held in trust designated for deferred compensation arrangements.

Note 3 - Patient and Resident Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - PPS: Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicare Administrative Contractor.

Medicare - CAH: Several of the Organization's consolidated subsidiaries are licensed as Critical Access Hospitals (CAH). These hospitals are reimbursed for most inpatient and outpatient services on a cost-based methodology with final settlement determined after submission of annual cost reports by the hospitals and are subject to audits thereof by the Medicare Administrative Contractor.

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are generally paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Clinical and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment reimbursement methodology. There are generally no retroactive settlements resulting from the Medicaid program.

Wellmark Blue Cross: Services rendered to Wellmark Blue Cross subscribers are reimbursed under prospectively determined rates using fixed payment rate methodologies for inpatient and outpatient services. The Organization is engaged in a value-based agreement with Wellmark for commercial and Medicare Advantage members.

Nursing Home – Medicare and Medicaid: The Organization is reimbursed for nursing home resident services to Medicaid beneficiaries at prospectively determined, cost derived billing rates subject to regulations as prescribed by the South Dakota Department of Social Services and Minnesota Department of Human Services. These rates are subject to retroactive adjustment by field audit. Under the Medicare program, payment for resident services is made on a prospectively determined per diem basis. The per diems vary according to a patient driven or resource-based resident classification system which is used to identify prospective payment for each resident.

Clinics: The Organization is reimbursed for most services provided in its clinics under the respective payer's fee schedules. Clinic services provided to Medicare beneficiaries that are licensed as rural health clinics are reimbursed at cost, while clinics recognized as provider-based clinics by Medicare receive a technical (hospital) and professional payment from Medicare.

The Organization also entered into payment agreements with certain commercial and managed care insurance carriers and other organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates and discounts from established charges.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is an ongoing level of uncertainty relative to the estimated liability for prior period cost reports. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Patient and resident service revenue for the years ended June 30, 2024 and 2023 increased approximately $5,300 and $5,000 due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits and reviews.

On November 2, 2023, the Centers for Medicare & Medicaid Services (CMS) published a final rule to remedy underpayments associated with 340B-acquired pharmaceuticals in 2018-2022. CMS made a one-time payment to impacted hospitals in early 2024. The Organization received $30,390 during January 2024, and the amount is reflected in patient and resident service revenues for the year ended June 30, 2024.

(Dollar Amounts in Thousands)

Generally, patients and certain residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Organization estimates the transaction price for patients and residents 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 based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient and resident service revenue in the period of the change. The ability to estimate the collectability of uninsured and other self-pay patients is contingent on the patient's ability or willingness to pay for the services provided. Subsequent changes that are determined to be the result of an adverse change in the patient's and resident's ability to pay are recorded as credit losses. Credit losses for the years ended June 30, 2024 and 2023 were not significant.

The composition of patient and resident service revenue by payor for the years ended June 30, 2024 and 2023 is as follows:

	2024	2023
Medicare	$ 975,584	$ 845,081
Medicaid	224,882	176,309
Blue Cross	588,028	544,798
Commercial insurance	634,495	576,937
Other third-party payors, patients and residents	173,040	174,626
	$ 2,596,029	$ 2,317,751

Contract Liability – Medicare Advanced Payments

The contract liability for Medicare advanced payments consists of advanced payments received from the Centers for Medicare & Medicaid Services, in order to increase cash flow for Medicare Part A and B providers who were impacted by the COVID-19 pandemic. Avera Health received $230,497 in advanced payments during the year ended June 30, 2020, which was to be recouped through reductions to payments for future Medicare claims. Recoupment of the remaining amounts received under this program began during the year ended June 30, 2021, one year after Avera Health affiliates received the advanced payments, and outstanding balances are currently not required to be paid in full for 29 months from the date the first payment under the program was received, at which time interest would accrue at 4% of the outstanding balance. Avera Health had recoupments of $3,326 of the Medicare advanced payments during the year ended June 30, 2023, and there were no remaining amounts to be recouped under the program subsequent to June 30, 2023.

(Dollar Amounts in Thousands)

Note 4 - Assets Limited as to Use, Custodial Funds, and Investment Income

Assets limited as to use and custodial funds consist of the following as of June 30, 2024 and 2023:

	2024	2023
Cash and cash equivalents	$ 206,423	$ 101,552
U.S. government issues	220,806	37,004
Corporate bonds	61,988	53,386
Other fixed income	21,041	23,185
Publicly traded equity securities	48,478	43,651
Foreign equities	50,989	43,839
Equity mutual funds	793,634	676,731
Fixed income mutual funds	517,817	416,200
Balanced mutual funds	165	145
Alternative investments		
Multi-strategy, debt, private equity, and hedge funds	114,717	119,153
Real asset funds	12,232	16,775
	$ 2,048,290	$ 1,531,621

Assets limited as to use and custodial funds are classified in the consolidated balance sheets as follows as of June 30, 2024 and 2023:

	2024	2023
Assets limited as to use		
Current - under indenture and contractual agreements	$ 126,636	$ 15,511
Current - designated reserves	34,820	44,721
Noncurrent - under indenture and contractual agreements	156,862	51,091
Noncurrent - designated reserves	1,676,074	1,362,425
Custodial funds held for unconsolidated entities	53,898	57,873
	$ 2,048,290	$ 1,531,621

(Dollar Amounts in Thousands)

Investment income and losses on assets limited as to use, cash equivalents, notes receivable, and other investments are comprised of the following for the years ended June 30, 2024 and 2023:

	2024	2023
Other Revenue		
Interest and dividend income	$ 15,793	$ 9,906
Other Income		
Interest and dividend income	$ 16,583	$ 7,154
Net realized gains on investments	8,952	2,215
Change in unrealized gains and losses on investments	131,500	87,461
	$ 157,035	$ 96,830
Changes in net assets with donor restrictions		
Net realized gains on investments	$ 1,198	$ 590
Change in unrealized gains and losses on investments	5,944	3,637
	$ 7,142	$ 4,227

Alternative Investments

Alternative investments include limited partnerships, limited liability corporations, and off-shore investment funds investing in multi-strategy, debt, private equity, hedging, and real asset portfolios. Included in the alternative investments are certain types of financial instruments including, among others, future and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which include varying degrees of off-balance-sheet risk, may also contain elements of credit risk including, but not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and non-marketable investments), and nondisclosure of portfolio composition. See Note 1 for more information on the accounting policy for these investments.

(Dollar Amounts in Thousands)

Note 5 - Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis at June 30, 2024 are as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Assets limited as to use and custodial funds				
Cash and cash equivalents	$ 167,638	$ 38,785	$ -	$ 206,423
U.S. government issues	5,703	215,103	-	220,806
Corporate bonds	-	61,988	-	61,988
Other fixed income	-	21,041	-	21,041
Publicly traded equity securities	48,478	-	-	48,478
Foreign equities	50,989	-	-	50,989
Equity mutual funds	14,672	77,883	-	92,555
Fixed income mutual funds	11,312	188,370	-	199,682
Balanced mutual funds	165	-	-	165
Investments valued at net asset value				
Equity mutual funds				701,079
Fixed income mutual funds				318,135
Alternative investments				
Multi-strategy, debt, private equity, and hedge funds				114,717
Real asset funds				12,232
	298,957	603,170	-	2,048,290
Other assets				
Deferred compensation - mutual funds	111,312	2,667	-	113,979
Physician guarantees	-	-	4,116	4,116
Investments valued at net asset value				
Deferred compensation - other				2,448
	$ 410,269	$ 605,837	$ 4,116	$ 2,168,833
Liabilities				
Other liabilities				
Physician guarantees	$ -	$ -	$ 4,116	$ 4,116
Derivative liability -				
Interest rate swap agreements	-	1,826	-	1,826
	$ -	$ 1,826	$ 4,116	$ 5,942

(Dollar Amounts in Thousands)

Assets and liabilities measured at fair value on a recurring basis at June 30, 2023 are as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Assets limited as to use and custodial funds				
Cash and cash equivalents	$ 70,653	$ 30,899	$ -	$ 101,552
U.S. government issues	8,370	28,634	-	37,004
Corporate bonds	-	53,386	-	53,386
Other fixed income	-	23,185	-	23,185
Publicly traded equity securities	43,651	-	-	43,651
Foreign equities	43,839	-	-	43,839
Equity mutual funds	14,193	137,819	-	152,012
Fixed income mutual funds	11,593	149,558	-	161,151
Balanced mutual funds	145	-	-	145
Investments valued at net asset value				
Equity mutual funds				524,719
Fixed income mutual funds				255,049
Alternative investments				
Multi-strategy, debt, private equity, and hedge funds				119,153
Real asset funds				16,775
	192,444	423,481	-	1,531,621
Other assets				
Deferred compensation - mutual funds	92,397	1,664	-	94,061
Physician guarantees	-	-	5,247	5,247
Investments valued at net asset value				
Deferred compensation - other				3,552
	$ 284,841	$ 425,145	$ 5,247	$ 1,634,481
Liabilities				
Other liabilities				
Physician guarantees	$ -	$ -	$ 5,247	$ 5,247
Derivative liability -				
Interest rate swap agreements	-	2,587	-	2,587
	$ -	$ 2,587	$ 5,247	$ 7,834

Avera Health's policy is to recognize transfers to or from Levels 1, 2, or 3 within the fair value hierarchy as of the beginning of the period. There were no significant transfers to or from Levels 1, 2, or 3 during 2024 and 2023.

The Level 2 and 3 instruments listed in the fair value hierarchy tables above use the following valuation techniques and inputs.

For marketable securities such as U.S. and foreign government securities, U.S. and foreign corporate bonds, U.S. and foreign equity securities, and other fixed income securities, in the instances where identical quoted market prices are not readily available, fair value is determined using quoted market prices and/or other market data for comparable instruments and transactions in establishing prices, discounted cash flow models and other pricing models. These inputs to fair value include industry-standard valuation techniques such as the income or market approach. Avera Health classifies all such investments as Level 2.

The fair value of liabilities for interest rate swap agreements classified as Level 2 is determined using an industry standard valuation model, which is based on a market approach. A credit risk spread (in basis points) is added as a flat spread to the discount curve used in the valuation model. Each leg is discounted and the sums of the difference between the present value of the cash flow of each leg equals the market value of the swap.

Fair values of contribution receivables and contribution commitments are based on the present value of the contribution commitments made and contribution receivables from the date of the promise to give to when the contribution is expected to be received. The fair values of physician guarantees are determined based on estimated future cash flows. Avera Health classifies these assets and liabilities as Level 3.

Investments Valued at Net Asset Value

The Organization determines the carrying amount of certain investments such as multi-strategy funds, collective investment funds, institutional mutual funds, private equity funds, hedge funds and real asset funds, using the calculated net asset value ("NAV") provided by the fund, an acceptable practical expedient. The net asset value is determined based on the fair value or estimated fair value of each of the underlying investments held in the fund. The fund or investment managers typically value underlying securities traded on a national securities exchange or reported on a national market at the last reported sales price on the day of the valuation. Underlying securities traded in the over-the-counter market and listed securities for which no sale was reported on the valuation date are typically valued at the mean between representative bids and ask quotes obtained. Where no fair value is readily available, the fund or investment manager may determine, in good faith, the fair value using models that take into account relevant information considered material. Real asset investments are priced using valuation techniques that include income, market, and cost approaches. Significant inputs include contract and market rents, operating expenses, capitalization rates, discount rates, sales of comparable properties, and market rent growth trends, as well as the use of the value of property plus the cost of building a similar structure of equal utility.

(Dollar Amounts in Thousands)

The following table and explanations identify attributes relating to the nature and risk of investments carried at NAV as of June 30, 2024:

	Fair Value	Unfunded Commitments	Redemption Notice Period
Daily redemption frequency			
Equity mutual funds	$ 524,676	$ -	Daily
Fixed income mutual funds	287,587	-	Daily
Two day redemption frequency			
Equity mutual funds	176,403	-	Daily
Monthly redemption frequency			
Fixed income mutual funds	30,548	-	10-30 Days
Quarterly redemption frequency			
Multi-strategy, debt, private equity, and hedge funds	65,033	-	45-90 Days
Semi-annual redemption frequency			
Multi-strategy, debt, private equity, and hedge funds	4,519	-	45-90 Days
Annual redemption frequency			
Multi-strategy, debt, private equity, and hedge funds	42,944	-	45-100 Days
Illiquid investments			
Multi-strategy, debt, private equity, and hedge funds	2,221	130	(A)
Real asset funds	12,232	4,760	(B)
	$ 1,146,163	$ 4,890	

(Dollar Amounts in Thousands)

The following table and explanations identify attributes relating to the nature and risk of investments carried at NAV as of June 30, 2023:

	Fair Value	Unfunded Commitments	Redemption Notice Period
Daily redemption frequency			
Equity mutual funds	$ 352,736	$ -	Daily
Fixed income mutual funds	229,071	-	Daily
Two day redemption frequency			
Equity mutual funds	171,983	-	Daily
Monthly redemption frequency			
Fixed income mutual funds	25,978	-	10-30 Days
Quarterly redemption frequency			
Multi-strategy, debt, private equity, and hedge funds	58,289	-	45-90 Days
Semi-annual redemption frequency			
Multi-strategy, debt, private equity, and hedge funds	12,694	-	45-90 Days
Annual redemption frequency			
Multi-strategy, debt, private equity, and hedge funds	38,322	-	45-100 Days
Illiquid investments			
Multi-strategy, debt, private equity, and hedge funds	9,848	130	(A)
Real asset funds	16,775	4,820	(B)
	$ 915,696	$ 4,950	

(A) This category includes funds that employ a multi-strategy approach in managing the fund; capital is allocated amongst a diverse industry base, employing a broad range of strategies. Strategies include, but are not limited to convertible and derivative investing, risk arbitrage and event driven investing, energy investing, yield and credit related investing, private placements and private investments, debt portfolios, distressed investing, quantitative trading, reinsurance and risk-linked investing, fixed-income trading, structured finance, global macro trading, long/short investing, and special investments. Redemptions from certain funds in this category have been suspended as the funds are currently in the process of liquidating.

(B) This category includes several private equity funds focused primarily on investing in a diversified portfolio of limited partnerships, limited liability companies, and private REITs, or similar entities that will be focused on Value Added opportunities in the acquisition, development, redevelopment, operation, and management of commercial real estate properties. There are limited provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds wind down over expected future periods.

(Dollar Amounts in Thousands)

Fair Value of Financial Instruments

The Organization annually evaluates its financial instruments that are reflected at cost in the financial statements to consider their fair values. The Organization has generally evaluated the fair value of these financial instruments using Level 2 inputs under the fair value hierarchy. The Organization considers the carrying amount of significant classes of financial instruments on the consolidated balance sheets, including cash and equivalents, receivables, assets limited as to use with readily determinable market values, other assets, accounts payable, due to other organizations, other long-term liabilities, and variable rate long-term debt to be reasonable estimates of fair value either due to their length of maturity or the existence of variable interest rates underlying such financial instruments that approximate prevailing market rates at June 30, 2024 and 2023.

The Organization's fixed rate long-term debt, including current portion, has a carrying amount that differs from its estimated fair value. The fair value of the Organization's fixed rate long-term debt is estimated using discounted cash flow analyses, based on the Organization's effective borrowing rates at respective reporting dates for similar types of arrangements. The carrying value of the Organization's fixed rate debt is $726,110 and $511,817 as of June 30, 2024 and 2023. The fair value of the Organization's fixed rate debt is estimated to be $740,888 and $502,053 as of June 30, 2024 and 2023.

Note 6 - Property and Equipment

A summary of property and equipment is as follows:

	2024		2023	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 54,416	$ -	$ 50,164	$ -
Land improvements	36,152	21,134	31,701	19,407
Buildings and improvements	1,386,373	729,729	1,368,400	693,480
Equipment	932,645	684,972	909,305	644,766
Rental property and property held for future use	38,286	4,510	38,737	4,238
Construction in progress	33,278	-	17,795	-
	$ 2,481,150	$ 1,440,345	$ 2,416,102	$ 1,361,891
Property and equipment, net		$ 1,040,805		$ 1,054,211

Depreciation expense on property and equipment was $126,670 and $119,739 for the years ended June 30, 2024 and 2023.

(Dollar Amounts in Thousands)

Construction in progress at June 30, 2024 consists of various construction, remodeling, software, and equipment projects. The most significant outstanding projects include information technology enhancements and implementations, the construction of a women's and children's center on Avera McKennan's primary Sioux Falls campus, further improvement and expansion at the health campus in southern Sioux Falls including a new medical clinic building, campus upgrades in Aberdeen, and enhancements and remodeling of facilities at Avera McKennan's primary Sioux Falls campus. Additional remodeling and addition projects are also planned across other Avera facilities. The Organization is also transitioning to two new major information technology system platforms. The Organization has been working on the implementation of Workday to integrate the human resources, finance and supply chain processes under one enterprise software system. The anticipated go-live date is early 2025. The Organization will also be transitioning its electronic health record (EHR) partner from Meditech to Epic. This transition began subsequent to June 30, 2024 and is expected to take two years with an anticipated go-live date scheduled for summer of 2026. The estimated cost to complete the various projects included in construction in progress as of June 30, 2024 is approximately $293,409 and will be financed from cash, Series 2024A Revenue Bond proceeds, and investment reserves. The estimated cost to complete the projects includes contract commitments of approximately $50,258 as of June 30, 2024. Additional contract commitments of $85,885 were entered into subsequent to June 30, 2024.

Note 7 - Investments in Affiliated Organizations

The Organization and subsidiaries are participants in various investments in affiliated organizations. Investments consist of the following as of June 30, 2024 and 2023:

	2024		2023	
Organization Name	Percent Ownership/ Sponsorship	Amount	Percent Ownership/ Sponsorship	Amount
Innovative Institute, LLC	16.7%	$ 10,202	16.7%	$ 14,669
Other investments in affiliates	40.0% - 50.0%	4,363	30.0% - 50.0%	4,448
Total investments in affiliated organizations		$ 14,565		$ 19,117

(Dollar Amounts in Thousands)

Summary financial information on a combined basis for the above entities, as of and for the years ended June 30, 2024 and 2023, is as follows:

	2024	2023
Cash and cash equivalents	$ 77,207	$ 97,880
Other current assets	40,499	40,971
Land, buildings, and equipment - net	111,371	108,864
Other noncurrent assets	57,423	65,042
Total assets	$ 286,500	$ 312,757
Total current liabilities	$ 60,392	$ 48,895
Long-term liabilities	67,680	78,864
Net assets/equity	158,428	184,998
Total liabilities and net assets/equity	$ 286,500	$ 312,757
Total revenues	$ 206,867	$ 280,799
Total expenses	(217,614)	(266,022)
Net (loss) income	$ (10,747)	$ 14,777

Note 8 - Goodwill and Intangible Assets

Changes in the carrying amount of goodwill during the years ended June 30, 2024 and 2023, were as follows:

	2024	2023
Balance, beginning of year	$ 100,183	$ 99,433
Goodwill acquired	850	750
Goodwill impaired	-	-
Other goodwill adjustments	(67)	-
Balance, end of year	$ 100,966	$ 100,183

(Dollar Amounts in Thousands)

Intangible assets as of June 30, 2024 and 2023 consist of:

	Cost	Accumulated Amortization	Net
Balance, June 30, 2024			
Non-compete agreements	$ 6,550	$ (5,935)	$ 615
Medical records	8,626	(5,274)	3,352
Other	1,079	(896)	183
	$ 16,255	$ (12,105)	$ 4,150
Balance, June 30, 2023			
Non-compete agreements	$ 6,550	$ (5,755)	$ 795
Medical records	8,626	(4,879)	3,747
Other	2,739	(830)	1,909
	$ 17,915	$ (11,464)	$ 6,451

Amortization expense for the years ended June 30, 2024 and 2023 was $641 and $788 and is included in depreciation and amortization in the consolidated statements of operations.

Estimated future amortization expense is as follows for the years ending June 30:

2025	$ 539
2026	519
2027	466
2028	372
2029	337
Thereafter	1,917
	$ 4,150

(Dollar Amounts in Thousands)

Note 9 - Long-Term Debt

	2024	2023
South Dakota Health and Educational Facilities Authority Series 2012B Revenue Bonds, variable interest rates due monthly during the year with a weighted average interest rate of 4.861%, varying principal payments due annually through tender date of October 31, 2032, final maturity of July 1, 2038	$ 97,715	$ 101,895
Unamortized debt issuance costs	-	(143)
South Dakota Health and Educational Facilities Authority Series 2017 Revenue Bonds, fixed interest rates ranging from 3.125% to 5.00%, due in varying semi-annual interest payments and annual principal payments to July 1, 2046	219,555	221,080
Unamortized bond premium	13,930	14,789
Unamortized debt issuance costs	(1,258)	(1,336)
South Dakota Health and Educational Facilities Authority Series 2019B Revenue Bonds, fixed interest rates ranging from 2.384% to 3.693%, due in varying semi-annual interest payments and annual principal payments to July 1, 2042	80,125	85,205
Unamortized debt issuance costs	(946)	(1,033)
South Dakota Health and Educational Facilities Authority Series 2024A Revenue Bonds, fixed interest rates ranging from 4.00% to 5.25%, due in varying semi-annual interest payments and annual principal payments to July 1, 2054	339,030	-
Unamortized bond premium	26,939	-
Unamortized debt issuance costs	(2,333)	-
South Dakota Health and Educational Facilities Authority Series 2014A Revenue Bonds, refinanced in 2024	-	58,750
Unamortized bond premium	-	2,102
Unamortized debt issuance costs	-	(562)
South Dakota Health and Educational Facilities Authority Series 2019A Revenue Bonds, refinanced in 2024	-	43,850
Unamortized bond premium	-	1,402
Term note obligations payable to financial institutions with interest rates ranging from 2.80% to 3.55%		
Series 2012C, due in monthly payments of $73 with final balloon payment due August 1, 2026	12,283	12,805
Series 2015A, due monthly with annual principal payments of $1,080 with a final balloon payment due June 29, 2025	18,360	19,440
Series 2016A, due in monthly payments of $118 with a final balloon payment due February 1, 2026	18,589	19,439
Series 2017A, due in monthly payments of $106 with a final balloon payment due July 1, 2024, refinanced in 2024	-	14,717
Series 2019A, due in monthly payments of $155 with a final balloon payment due July 1, 2026	21,744	22,830

(Dollar Amounts in Thousands)

	2024	2023
Notes and contracts payable, fixed interest rates ranging from 1.83% to 8.46%, with varying payment terms through April 2031, secured by equipment	$ 16,424	$ 13,697
Unamortized debt issuance costs	(49)	-
Finance lease obligations - Note 12	-	3
Total long-term debt	860,108	628,930
Less current maturities	(18,017)	(18,342)
Long-term debt, less current maturities	$ 842,091	$ 610,588

Long-term debt maturities are as follows for the years ending June 30:

2025	$ 18,017
2026	51,377
2027	45,448
2028	15,704
2029	18,547
Thereafter	674,732
	823,825
Unamortized bond premiums and discounts, net	40,869
Unamortized debt issuance costs	(4,586)
	$ 860,108

Substantially all of the Obligated Group's assets and revenues as of June 30, 2024 and 2023 are pledged as collateral for debt obligations. Various debt agreements of the Organization contain certain restrictive covenants, including the maintenance of specific financial ratios and liquidity measures.

Debt issuance costs and bond discounts and premiums are amortized over the period the related obligation is outstanding using the effective interest method. Amortization is included in interest expense in the consolidated financial statements and does not have a significant impact on the effective interest rates of the related debt issues.

Under the terms of the loan agreements for the revenue bonds, the Organization and its consolidated affiliates are required to maintain certain deposits with trustees. Such deposits are included with assets limited as to use in the consolidated financial statements. Assets that are available for obligations classified as current liabilities are reported in current assets. The loan agreements also place limits on the incurrence of additional borrowings and requires that the Organization satisfy certain measures of financial performance as long as the bonds are outstanding.

Obligated Group

As described in Note 1, the Avera Health Obligated Group (Obligated Group) was created to access the capital markets and make loans to its members. Obligated Group members are jointly and severally liable for the long-term debt outstanding under the Master Trust Indenture.

Lines of Credit

The Organization entered into a revolving credit agreement with a financial institution providing $125,000 for working capital and general corporate purposes. Loan advances are available in minimum $1,000 amounts. A commitment fee is charged based on the average daily available revolving commitment and the Organization can reduce its maximum revolving commitment upon written notice. Interest is charged based on a variable rate (6.59% at June 30, 2024), subject to credit rating adjustments as prescribed in the agreement and is due monthly. Any unpaid interest and principal amounts are due when the credit agreement expires on October 27, 2026. No amounts were outstanding under this line of credit at June 30, 2024 and 2023.

A consolidated subsidiary of the Organization has a $3,500 working capital line of credit provided by a mortgage lender, which is subject to an interest rate of the SOFR rate plus an applicable margin of 2.20% (7.51% at June 30, 2024). The line of credit is also subject to the covenants, guarantee and collateral of the real estate loan. The line of credit expires in April 2025. No amounts were outstanding under this line of credit at June 30, 2024 and 2023.

Standby Letter of Credit

In connection with its participation in a risk-bearing ACO model as discussed in Note 1, the Organization was required by the Centers for Medicare and Medicaid Services to enter into a standby letter of credit arrangement. As of June 30, 2024, the Organization has a standby letter of credit with a financial institution of $2,804, with a scheduled expiration of December 31, 2025. No amounts were outstanding under this letter of credit at June 30, 2024 and 2023.

Advanced Refunding of Bonds

The Organization refinanced the Series 2014A Revenue Bonds, Series 2019A Revenue Bonds, and Series 2017A term note obligation with proceeds from the issuance of the Series 2024A Revenue Bonds. In connection with the refinancing, the Organization recorded a gain on advance refunding of bonds of $1,844 during the year ended June 30, 2024. The Series 2014A Revenue Bonds were advance refunded by depositing funds in a trustee-held optional redemption fund exclusively for the payment of principal and interest and were considered legally defeased. The trustee held optional redemption fund was invested in U.S. government securities. The Series 2014A Revenue Bonds were paid in full on July 1, 2024. The Series 2019A Revenue Bonds and the 2017A term note obligation were paid in full on April 24, 2024.

(Dollar Amounts in Thousands)

Note 10 - Interest Rate Swaps

In accordance with its market-risk policy, the Organization has developed a risk management strategy to maintain acceptable levels of exposure to the risk of changes in future expected variable cash flows resulting from interest rate fluctuations. As part of this strategy, the Organization has entered into the following interest rate swap agreements:

Reference	Maturity Date	Notional Amount	Organization Pays	Organization Receives	Fair Value 2024	Fair Value 2023
Swap A	2028	$ 7,835	3.870%	67% of SOFR	$ (109)	$ (181)
Swap B	2033	$ 29,885	3.915%	67% of SOFR	(1,778)	(2,406)
Swap C	2030	$ 2,200	3.430%	SOFR	61	-
					$ (1,826)	$ (2,587)

The Organization originally entered into these swaps to convert variable rate debt to synthetic fixed rate debt in order to offset the variability of the overall cash flows caused by market changes on a portion of their variable rate debt exposure.

Effective July 1, 2009, the Organization elected to discontinue the designation of Swap A and Swap B as cash flow hedges. The net unrealized loss on the date of hedge accounting discontinuance of $9,702 is being prospectively reclassified into the performance indicator as future interest payments are made over the remaining term of the swap agreements. For the years ended June 30, 2024 and 2023, $324 and $346 was reclassified into the performance indicator in relation to the hedge discontinuance.

The following table summarizes the derivative transactions reflected in the consolidated balance sheets and consolidated statements of operations for the years ended June 30, 2024 and 2023:

	2024	2023
Long-Term Liability		
Fair value of interest rate swap agreements	$ (1,826)	$ (2,587)
Revenues in Excess of Expenses		
Change in fair value of interest rate swaps not designated as hedging instruments	761	2,199
Reclassification of accumulated losses on interest rate swaps	(324)	(346)
Interest expense	98	550
Other Changes in Net Assets		
Reclassification of accumulated losses on interest rate swaps	324	346

(Dollar Amounts in Thousands)

Note 11 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2024 and 2023:

	2024	2023
Subject to expenditure for a specific purpose		
Various health care programs and capital projects, including hospice, cancer care, various regional operations, and others	$ 59,271	$ 52,116
Endowments		
Earnings subject to appropriation and expenditure		
Various health care programs and services	5,075	3,961
Investments to be held in perpetuity, the income from which is expendable to support various health care program services	12,080	11,694
	$ 76,426	$ 67,771

Net assets released from restrictions for operating purposes were $3,210 and $5,438 for the years ended June 30, 2024 and 2023, and are included in other operating revenues in the consolidated statements of operations. Net assets released from restrictions for capital purposes were $2,494 and $5,939 for the years ended June 30, 2024 and 2023, and were recorded as other changes in net assets.

Endowments

The Organization's endowment assets consist of individual funds established by donors to provide funding for specific activities and general operations. Endowment assets also includes certain net assets without donor restrictions designated for quasi-endowment by the Board of Directors. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Avera Health's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2024 and 2023, there were no such donor stipulations. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts (including contributions receivable net of discount and allowance for doubtful accounts) donated to the endowment assets and (b) any accumulations to the endowment assets made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

Avera Health has investment and spending policies for endowment assets designed to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets are invested in a manner that is intended to produce results that achieve the respective benchmark while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, Avera Health relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Avera Health targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that Avera Health is required to retain as a fund of perpetual duration. There were no significant underwater endowments funds as of June 30, 2024 and 2023.

Note 12 - Leases

The Organization leases certain property and equipment for various terms under long-term, non-cancelable operating and finance lease agreements. The leases expire at various dates through 2049 and provide for renewal options. The Organization included in the determination of the right of use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. Certain leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Also, certain agreements generally require the Organization to pay real estate taxes, insurance, and repairs.

The weighted-average discount rate is based on the discount rate implicit in the lease, or if the implicit rate is not readily determinable from the lease, then the Organization estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the Organization’s applicable borrowing rates and the contractual lease term.

The Organization elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

The Organization elected the practical expedient to not separate lease and non-lease components for real estate and equipment leases.

(Dollar Amounts in Thousands)

Total right of use assets and lease liabilities at June 30, 2024 and 2023 were as follows:

Lease Assets	Classification	2024	2023
Right of use operating lease assets	Other assets	$ 112,449	$ 121,495
Right of use finance lease assets	Property and equipment, net	-	3
Total leased assets		$ 112,449	$ 121,498

Lease Liabilities	Classification	2024	2023
Current			
Operating lease liabilities	Right of use operating lease obligations	$ 8,612	$ 8,700
Finance lease liabilities	Current maturities of long-term debt	-	3
Noncurrent			
Operating lease liabilities	Right of use operating lease obligations	108,329	114,374
Total lease liabilities		$ 116,941	$ 123,077

Total lease costs for the years ended June 30, 2024 and 2023 were as follows:

	2024	2023
Operating lease cost	$ 13,721	$ 12,910
Variable lease cost	2,525	2,197
Short-term lease cost	8,506	6,965
Impairment of right-of-use assets	2,656	-
Finance lease cost		
Interest expense	-	278
Amortization of right of use assets	-	662

The following table summarizes the supplemental cash flow information for the years ended June 30, 2024 and 2023:

	2024	2023
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	$ 13,464	$ 12,820
Operating cash flows for finance leases	-	278
Financing cash flows for finance leases	-	14,053
Right of use assets obtained in exchange for lease liabilities		
Operating leases	2,906	47,214

(Dollar Amounts in Thousands)

The following summarizes the weighted-average remaining lease term and weighted-average discount rate:

	2024	2023
Weighted-average remaining lease term (Years)		
Operating leases	16.51	16.99
Finance leases	N/A	0.50
Weighted-average discount rate		
Operating leases	3.85%	3.79%
Finance leases	N/A	4.00%

The future minimum lease payments under noncancelable operating and finance leases with terms greater than one year are listed below as of June 30, 2024.

Years Ending June 30,	Operating	Finance
2025	$ 13,052	$ -
2026	12,853	-
2027	11,986	-
2028	11,367	-
2029	10,651	-
Thereafter	109,323	-
Total lease payments	169,232	-
Less interest	(52,291)	-
Present value of lease liabilities	$ 116,941	$ -

Note 13 - Employee Retirement Plans

Defined Contribution Employer Match Retirement Savings Plan (PBVM Match Retirement Savings)

Avera Health has a 403(b) defined contribution pension plan (“403(b) Plan”) available for eligible employees. Under the 403(b) Plan, participant contributions are matched up to 5% of eligible employee compensation. The Organization recognized total 403(b) Plan expenses of approximately $40,918 and $44,334 for the years ended June 30, 2024 and 2023.

Other Defined Contribution Retirement Plans

Certain consolidated affiliates have defined contribution pension plans available to eligible employees. Employer contributions are based on a percentage of annual compensation and employee level of contributions. Employee and employer contributions are deposited with the plan trustees who invest the plan assets. The Organization recognized total other defined contribution pension plan expenses of approximately $1,551 and $1,576 for the years ended June 30, 2024 and 2023.

Deferred Compensation Plan

The Organization has a non-qualified deferred compensation plan that permits eligible employees to defer a portion of their compensation in accordance with the applicable provisions of the Internal Revenue Code. Deferred amounts are not available to employees until a distribution event occurs, as defined in the plan document. The assets are held in the name of the Organization until paid or made available to the plan participant. The related assets are reported in other assets, and the corresponding liability is recorded in noncurrent liabilities. Compensation amounts deferred to the plan were $7,166 and $7,146 for the years ended June 30, 2024 and 2023. Investment earnings and corresponding expenses or expense offsets are recorded as non-operating activity in the consolidated financial statements. Net investment earnings on the deferred compensation program totaled $16,043 and $11,052 for the years ended June 30, 2024 and 2023.

Frozen Defined Benefit Plans – Career Average and Cash Balance Plans

Until December 31, 2016, eligible employees of Avera Health and certain consolidated affiliates participated in either the Retirement Plan for Employees of the Sisters of the Presentation of the Blessed Virgin Mary of Aberdeen, South Dakota ("Career Average Plan") or the Cash Balance Retirement Plan for Employees of the Sisters of the Presentation of the Blessed Virgin Mary of Aberdeen South Dakota ("Cash Balance Plan"), (collectively, the "Plans"). The Career Average Plan was closed to new participants in 2001. The Sisters of the Presentation of the Blessed Virgin Mary of Aberdeen, South Dakota, sponsor these retirement plans. The Plans are not subject to regulations requiring the filing of IRS Form 5500 and are considered "church plans" under the Department of Labor and IRS regulations. The Plans' fiscal years are from January 1 to December 31. On December 31, 2016, these Plans were frozen to new entrants and benefit accruals for existing participants. Pension benefits under these defined benefit plans are based on a percentage of the employee's eligible earnings and are payable at retirement under several annuitized payment options.

During the years ended June 30, 2023, the Organization recorded expenses of approximately $11,917 to the Career Average plan. During the years ended June 30, 2023, the Organization recorded expenses of approximately $585 to the Cash Balance plan.

During the year ended June 30, 2023, due to changes to the defined benefit plans and certain underlying participating sponsored ministries of the Sisters of the Presentation of the Blessed Virgin Mary of Aberdeen, South Dakota, the accounting for the plans changed and the funding position of the plan that related to Avera Health and its sponsored entities were separately calculated by the actuary and recorded on the consolidated balance sheet of Avera Health for the year ended June 30, 2023. The funded status of the Plans of a liability of $142,722 was recorded as an adjustment to unrestricted net assets during the year ended June 30, 2023, which will be amortized as a component of net periodic benefit cost over the estimated remaining benefit periods for the participants of the frozen Plans.

(Dollar Amounts in Thousands)

The change in benefit obligation for the year ended June 30, 2024 is as follows:

	2024
Benefit obligation, beginning of year	$ 656,976
Service cost	-
Interest cost	35,025
Actuarial gain	(15,753)
Benefit payments	(37,501)
Benefit obligation, end of year	$ 638,747

The change in fair value of plan assets for the year ended June 30, 2024 is as follows:

	2024
Fair value of plan assets, beginning of year	$ 514,254
Actual return on plan assets	55,103
Benefit payments	(37,501)
Employer contribution	12,034
Fair value of plan assets, end of year	$ 543,890

The funded status of the Plans, recorded as accrued pension in the consolidated balance sheet at June 30, 2024 and 2023 is as follows:

	2024	2023
Career average	$ (108,329)	$ (141,600)
Cash balance	13,472	(1,122)
Total funded status	$ (94,857)	$ (142,722)

The net amount recognized in unrestricted net assets consists of the following:

	2024	2023
Accumulated loss	$ 99,142	$ 142,722

(Dollar Amounts in Thousands)

Components of net periodic benefit cost and other amounts recognized in unrestricted net assets are as follows:

	2024
Net periodic benefit cost	
Service cost	$ -
Interest cost	35,025
Expected return on plan assets	(33,854)
Amortization	6,578
Net periodic benefit cost	7,749
Other changes in plan assets and benefit obligations recognized in unrestricted net assets	
Unrecognized net gain	(51,977)
Unrecognized net transition liability	8,397
Total recognized in unrestricted net assets	(43,580)
Total recognized in net periodic benefit cost and unrestricted net assets	$ (35,831)

The following are weighted-average assumptions used to determine benefit obligations and net periodic benefit cost as of and for the years ended June 30, 2024 and 2023:

	2024	2023
Discount rate	5.50%	5.50%
Expected long-term rate of return on plan assets	6.75%	6.75%

Future net periodic benefit cost and funded status of the plans will be impacted by changes to discount rates and the expected long-term return on plans assets. The Organization's expected long-term return on plan assets assumption is based on a periodic review and modeling of the plans' asset allocation and liability structure over a long-term period. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (1) historical real returns, net of inflation, for the asset classes covered by the investment policy, and (2) projections of inflation over the long-term period during which benefits are payable to plan participants.

(Dollar Amounts in Thousands)

It is the Plans' policy to invest pension assets in a diversified portfolio consisting of an array of asset classes within established target asset allocation ranges. The investment risk of the assets is limited by appropriate diversification both within and between asset classes. The assets are primarily invested in a broad mix of domestic and international equities, domestic and international bonds, hedge funds, and private equity assets, subject to the target asset allocation ranges. The assets are managed with a view to ensuring that sufficient liquidity will be available to meet expected cash flow requirements. The target and actual allocations for plan assets at June 30, 2024 and 2023 are as follows:

	Asset Allocation Target	Actual 2024	Actual 2023
Cash and cash equivalents	4.0%	2.8%	1.4%
Equity securities	57.0%	60.1%	57.4%
Fixed income securities	26.0%	24.0%	27.8%
Hedge funds	9.0%	9.9%	9.4%
Private equity	4.0%	3.2%	4.0%
	100.0%	100.0%	100.0%

The investment valuation policy of the Plans is to value investments at fair value. Equity securities for which market quotations are readily available are valued at the last reported sales price on their principal exchange on valuation date or official close for certain markets. Fixed income investments are valued on a basis of valuations furnished by a trustee-approved independent pricing service, which determines valuations for normal institutional-size trading units of such securities which are generally recognized at fair value as determined in good faith by the trustee. Investments in registered investment companies or collective pooled funds are valued at their respective net asset values. The fair value of real estate is determined by periodic appraisals.

The following table sets forth by level, within the fair value hierarchy, the Organization's pension plan assets at fair value as of June 30, 2024:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 15,327	$ -	$ -	$ 15,327
Equity securities	51,477	-	-	51,477
Equity mutual funds	-	24,826	-	24,826
Debt securities	5,971	16,325	-	22,296
Fixed income mutual funds	-	29,969	-	29,969
Investments valued at NAV				
Equity mutual funds				250,524
Fixed income mutual funds				56,612
Alternative investments				
Multi-strategy, debt, private equity and hedge funds				86,685
Real asset funds				6,174
Total	$ 72,775	$ 71,120	$ -	$ 543,890

(Dollar Amounts in Thousands)

The following table sets forth by level, within the fair value hierarchy, the Organization's pension plan assets at fair value as of June 30, 2023:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 7,191	$ -	$ -	$ 7,191
Equity securities	44,217	-	-	44,217
Equity mutual funds	-	50,581	-	50,581
Debt securities	5,733	16,826	-	22,559
Fixed income mutual funds	-	36,413	-	36,413
Investments valued at NAV				
Equity mutual funds				200,409
Fixed income mutual funds				55,289
Alternative investments				
Multi-strategy, debt, private equity and hedge funds				88,980
Real asset funds				8,615
Total	$ 57,141	$ 103,820	$ -	$ 514,254

Included within the pension plan assets are investments in certain entities that report fair value using a calculated NAV or its equivalent. The following is a table identifying attributes related to certain entities that report fair value using a calculated NAV or its equivalent as of June 30, 2024:

	Fair Value	Unfunded Commitments	Redemption Notice Period
Daily redemption frequency			
Equity mutual funds	$ 223,111	$ -	Daily
Fixed income mutual funds	48,198	-	Daily
Two day redemption frequency			
Equity mutual funds	27,413	-	Daily
Monthly redemption frequency			
Fixed income mutual funds	8,414	-	10-30 Days
Quarterly redemption frequency			
Multi-strategy, debt, private equity, and hedge funds	53,837	-	100 Days
Illiquid investments			
Multi-strategy, debt, private equity, and hedge funds	32,848	6,428	(A)
Real asset funds	6,174	2,717	(B)
	$ 399,995	$ 9,145	

(Dollar Amounts in Thousands)

The following is a table identifying attributes related to certain entities that report fair value using a calculated NAV or its equivalent as of June 30, 2023:

	Fair Value	Unfunded Commitments	Redemption Notice Period
Daily redemption frequency			
Equity mutual funds	$ 172,499	$ -	Daily
Fixed income mutual funds	46,699	-	Daily
Two day redemption frequency			
Equity mutual funds	27,910	-	Daily
Monthly redemption frequency			
Fixed income mutual funds	8,590	-	10-30 Days
Quarterly redemption frequency			
Multi-strategy, debt, private equity, and hedge funds	48,356	-	100 Days
Illiquid investments			
Multi-strategy, debt, private equity, and hedge funds	40,624	6,616	(A)
Real asset funds	8,615	2,556	(B)
	$ 353,293	$ 9,172	

(A) This category includes funds that employ a multi-strategy approach in managing the fund; capital is allocated amongst a diverse industry base, employing a broad range of strategies. Strategies include, but are not limited to convertible and derivative investing, risk arbitrage and event driven investing, energy investing, yield and credit related investing, private placements and private investments, debt portfolios, distressed investing, quantitative trading, reinsurance and risk-linked investing, fixed-income trading, structured finance, global macro trading, long/short investing, and special investments. Redemptions from certain funds in this category have been suspended as the funds are currently in the process of liquidating.

(B) This category includes several private equity funds focused primarily on investing in a diversified portfolio of limited partnerships, limited liability companies, and private REITs, or similar entities that will be focused on Value Added opportunities in the acquisition, development, redevelopment, operation, and management of commercial real estate properties. There are limited provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds wind down over expected future periods.

(Dollar Amounts in Thousands)

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated as follows:

2025	$ 41,875
2026	40,430
2027	41,606
2028	42,467
2029	43,793
2030-2034	232,817
	$ 442,988

Note 14 - Functional Expenses

The Organization provides general health care services to patients and residents within its geographic location. Expenses related to providing these services by functional class for the year ended June 30, 2024 are as follows:

	Healthcare Services	Insurance Services	General and Administrative	Fundraising	Total
Salaries, wages, and benefits	$ 1,391,910	$ 6,808	$ 204,448	$ 1,726	$ 1,604,892
Supplies	697,150	-	1,364	60	698,574
Other	427,786	4,790	51,262	863	484,701
Claims expense	-	107,472	-	-	107,472
Interest	20,169	-	4,943	-	25,112
Depreciation and amortization	88,680	-	35,150	6	123,836
	$ 2,625,695	$ 119,070	$ 297,167	$ 2,655	$ 3,044,587

Expenses related to providing these services by functional class for the year ended June 30, 2023 are as follows:

	Healthcare Services	Insurance Services	General and Administrative	Fundraising	Total
Salaries, wages, and benefits	$ 1,308,272	$ 7,406	$ 215,034	$ 1,824	$ 1,532,536
Supplies	610,413	-	1,341	92	611,846
Other	363,271	-	64,615	792	428,678
Claims expense	-	144,296	-	-	144,296
Interest	18,636	-	4,915	-	23,551
Depreciation and amortization	83,456	-	33,108	6	116,570
	$ 2,384,048	$ 151,702	$ 319,013	$ 2,714	$ 2,857,477

(Dollar Amounts in Thousands)

Note 15 - Commitments

The Organization has entered into several agreements that contain long-term contractual purchase commitments or promises to give. Unconditional promises to give are recorded as other current and non-current liabilities in the consolidated balance sheets.

A summary of outstanding commitments under conditional promises to give and other long-term contractual purchase commitments is as follows for the years ending June 30:

2025	$ 63,850
2026	54,754
2027	42,761
2028	20,757
2029	10,610
Thereafter	15,412
	$ 208,144

Alternative Investment Commitments

The Organization has commitments to invest approximately $4,890 in various alternative investments as of June 30, 2024.

Other Commitments

Avera Health Plans, Inc., South Dakota State Medical Holding Company, Inc. d/b/a Dakotacare, and Avera Property Insurance, Inc., affiliates of the Organization, are required to maintain a minimum net worth under the laws of the State of South Dakota. As of June 30, 2024, management believes they have met the minimum net worth requirements.

Note 16 - Contingencies

Malpractice Insurance

The Organization and most of its consolidated affiliates primarily participate in a self-insured professional liability program which provides malpractice insurance coverage for professional liability losses subject to a self-insured retention of $4 million per claim and $12 million annual aggregate, $3 million per claim and $9 million annual aggregate prior to March 1, 2024, $2 million per claim and $6 million annual aggregate prior to January 1, 2019. The Organization is also insured under an excess umbrella liability claims-made policy with a limit of $35 million per claim and $40 million annual aggregate. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be insured subject to the self-insured retention only. Certain consolidated entities maintain their professional liability coverage on a claims-made basis with no significant deductibles.

(Dollar Amounts in Thousands)

Litigation, Regulatory and Compliance Matters

The healthcare industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, the rules governing licensure, accreditation, government healthcare program participation, government reimbursement, antitrust, anti-kickback and anti-referral by physicians, false claims prohibitions, and in the case of tax-exempt organizations, the requirements of tax exemption. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations by healthcare providers of reimbursement, false claims, anti-kickback and anti-referral statutes and regulations, quality of care provided to patients, and handling of controlled substances.

In addition, during the course of business, Avera Health becomes involved in litigation. Management assesses the probable outcome of unresolved litigation and investigations and determines the appropriate accounting recognition or disclosure based on their assessment. As of June 30, 2024 and 2023, management feels there are no asserted or unasserted claims that would have a material impact on the consolidated financial position, results of operations, or cash flows of the Organization.

Note 17 - Concentrations

Credit Risk

The Organization grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients and residents at June 30, 2024 and 2023, are as follows:

	2024	2023
Medicare	41%	42%
Medicaid	9%	8%
Blue Cross	16%	14%
Commercial insurance	13%	14%
Other third-party payors, patients and residents	21%	22%
	100%	100%

The Company maintains its cash in bank deposit accounts which periodically exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250 per depositor, per insured bank, for each account ownership category. At June 30, 2024 and 2023, the Company had approximately $114,610 and $99,990 in excess of FDIC-insured limits.

(Dollar Amounts in Thousands)

Note 18 - Business Combinations

2024 Acquisitions

During the year ended June 30, 2024, the Organization acquired eye clinics in Marshall, Minnesota and an oncology practice in Yankton, South Dakota. The results of operations for these acquisitions have been included in the accompanying consolidated financial statements for the period subsequent to the acquisition date.

The 2024 acquisitions were allocated to the acquired assets and liabilities based on estimated fair value as of the business combination date during the year ended June 30, 2024 as follows:

Property and equipment, net	$	400
Goodwill		850
Total assets acquired		1,250
Liabilities assumed		-
Net cash paid	$	1,250

2023 Acquisitions

During the year ended June 30, 2023, the Organization acquired an 80% membership interest in a company that provides in home nursing, aide homemaker other attendant services, and an emergency response system in Sioux Falls, South Dakota. The results of operations for this acquisition have been included in the accompanying consolidated financial statements for the period subsequent to the acquisition date.

The 2023 acquisition was allocated to the acquired assets and liabilities based on estimated fair value as of the business combination date during the year ended June 30, 2023 as follows:

Receivables and other assets	$	15
Property and equipment, net		67
Goodwill		750
Total assets acquired		832
Liabilities assumed		(570)
Net cash paid	$	262

(Dollar Amounts in Thousands)

Note 19 - COVID-19 Stimulus Revenue

The Organization received and recognized substantial operating revenue under the Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS) in years prior to June 30, 2023. Funds that have not been spent or substantiated are recorded as refundable advances as of the balances sheet date. The funds are subject to terms and conditions imposed by HHS. The terms and conditions of this program are subject to interpretation, and the program is subject to oversight, monitoring, and audit. As such, there is a reasonable possibility of impacts to provider relief fund recognition in future periods.

During the years ended June 30, 2024 and 2023, the Organization recognized additional COVID-19 stimulus funds of $8,887 and $10,875 through various state funding programs and funding administered by the Federal Emergency Management Agency (FEMA) for emergency protective measure costs incurred by the Organization during the COVID-19 Pandemic. Funding received was based on the actual costs incurred by the Organization during the periods of performance stated in the related grant agreements. As of June 30, 2024, the Organization has recognized all of the grant dollars awarded from COVID-19 stimulus programs within the consolidated statements of operations.

Note 20 - Related Party Transactions

The Organization has transactions with entities related to the minority partner of Heart Hospital of South Dakota LLC for various services, including professional medical services and rent.

Related party transactions were as follows for the years ended June 30, 2024 and 2023:

	2024	2023
Professional services and other	$ 28,573	$ 24,215
Lease/rent	1,695	1,442
	$ 30,268	$ 25,657

As of June 30, 2024 and 2023, the Organization had approximately $3,329 and $3,045, in accounts payable in the accompanying consolidated balance sheets related to purchases from related entities.

Note 21 - Subsequent Events

The Organization has evaluated subsequent events through October 22, 2024, the date which the consolidated financial statements were issued.

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Avera Health
Sioux Falls, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Avera Health (Organization), which comprise the consolidated balance sheet as of June 30, 2024, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 22, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Sioux Falls, South Dakota
October 22, 2024

Supplementary Consolidating Information
June 30, 2024 and 2023

Avera Health

Avera Health
Consolidating Balance Sheets
June 30, 2024
(In Thousands)

	Avera Obligated Group	Non-Obligated Group	Eliminations and Reclassifications	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	$ 68,354	$ 21,313	$ -	$ 89,667
Assets limited as to use				
Under indenture and contractual agreements	126,636	-	-	126,636
Designated reserves	302	34,518	-	34,820
Receivables				
Patients and residents	309,094	-	(13,304)	295,790
Other	88,616	18,447	(650)	106,413
Supplies	78,744	-	-	78,744
Prepaid expenses and other	39,498	1,780	-	41,278
Total current assets	711,244	76,058	(13,954)	773,348
Assets Limited as to Use				
Under indenture and contractual agreements	156,862	-	-	156,862
Designated reserves	1,640,941	35,133	-	1,676,074
Total noncurrent assets limited as to use	1,797,803	35,133	-	1,832,936
Property and Equipment, Net	1,034,385	6,420	-	1,040,805
Other Assets				
Custodial funds held for uncontrolled affiliates	53,898	-	-	53,898
Investments in affiliated organizations	14,565	-	-	14,565
Goodwill	100,966	-	-	100,966
Intangible assets, net	4,150	-	-	4,150
Right of use operating lease assets	109,257	3,192	-	112,449
Noncurrent receivables	15,342	-	-	15,342
Intercompany	264	(264)	-	-
Deferred compensation	116,427	-	-	116,427
Other	12,564	84	-	12,648
Total other assets	427,433	3,012	-	430,445
Total Assets	$ 3,970,865	$ 120,623	$ (13,954)	$ 4,077,534

Avera Health
Consolidating Balance Sheets
June 30, 2024
(In Thousands)

	Avera Obligated Group	Non-Obligated Group	Eliminations and Reclassifications	Consolidated
Liabilities and Net Assets				
Current Liabilities				
Current maturities of long-term debt	$ 18,017	$ -	$ -	$ 18,017
Accounts payable	95,839	7,906	(676)	103,069
Accrued salaries, benefits, and withholdings	119,860	1,757	-	121,617
Interest payable	9,384	-	-	9,384
Estimated insurance claims payable	12,835	23,044	(13,278)	22,601
Estimated third-party payor settlements	16,843	-	-	16,843
Right of use operating lease obligations	8,088	524	-	8,612
Other	14,011	5,937	-	19,948
Total current liabilities	294,877	39,168	(13,954)	320,091
Noncurrent Liabilities				
Long-term debt, less unamortized premiums, discounts, and debt issuance costs	842,091	-	-	842,091
Right of use operating lease obligations	105,661	2,668	-	108,329
Custodial funds held for uncontrolled affiliates	53,898	-	-	53,898
Estimated insurance claims payable	8,554	-	-	8,554
Derivative liability	1,826	-	-	1,826
Accrued pension	94,857	-	-	94,857
Accrued deferred compensation	116,427	-	-	116,427
Other	14,035	21	-	14,056
Total noncurrent liabilities	1,237,349	2,689	-	1,240,038
Total liabilities	1,532,226	41,857	(13,954)	1,560,129
Net Assets				
Without donor restrictions				
Undesignated	2,341,444	78,766	-	2,420,210
Noncontrolling interest	20,769	-	-	20,769
Total withour donor restrictions	2,362,213	78,766	-	2,440,979
With donor restrictions	76,426	-	-	76,426
Total net assets	2,438,639	78,766	-	2,517,405
Total Liabilities and Net Assets	$ 3,970,865	$ 120,623	$ (13,954)	$ 4,077,534

Avera Health
Consolidating Balance Sheets
June 30, 2023
(In Thousands)

	Avera Obligated Group	Non-Obligated Group	Eliminations and Reclassifications	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	$ 62,883	$ 20,146	$ -	$ 83,029
Assets limited as to use				
Under indenture and contractual agreements	15,511	-	-	15,511
Designated reserves	2,062	42,659	-	44,721
Receivables				
Patients and residents	324,084	-	(22,635)	301,449
Other	84,592	17,089	(721)	100,960
Supplies	69,377	-	-	69,377
Prepaid expenses and other	28,424	1,439	-	29,863
Total current assets	586,933	81,333	(23,356)	644,910
Assets Limited as to Use				
Under indenture and contractual agreements	51,091	-	-	51,091
Designated reserves	1,324,136	38,289	-	1,362,425
Total noncurrent assets limited as to use	1,375,227	38,289	-	1,413,516
Property and Equipment, Net	1,046,242	7,969	-	1,054,211
Other Assets				
Custodial funds held for uncontrolled affiliates	57,873	-	-	57,873
Investments in affiliated organizations	19,117	-	-	19,117
Goodwill	100,183	-	-	100,183
Intangible assets, net	6,451	-	-	6,451
Right of use operating lease assets	117,807	3,688	-	121,495
Noncurrent receivables	16,412	-	-	16,412
Intercompany	338	(338)	-	-
Deferred compensation	97,613	-	-	97,613
Other	11,970	743	-	12,713
Total other assets	427,764	4,093	-	431,857
Total Assets	$ 3,436,166	$ 131,684	$ (23,356)	$ 3,544,494

Avera Health
Consolidating Balance Sheets
June 30, 2023
(In Thousands)

	Avera Obligated Group	Non-Obligated Group	Eliminations and Reclassifications	Consolidated
Liabilities and Net Assets				
Current Liabilities				
Current maturities of long-term debt	$ 18,342	$ -	$ -	$ 18,342
Accounts payable	83,805	7,291	(2,986)	88,110
Accrued salaries, benefits, and withholdings	103,360	1,241	-	104,601
Interest payable	9,153	-	-	9,153
Estimated insurance claims payable	17,901	39,814	(20,370)	37,345
Estimated third-party payor settlements	14,690	-	-	14,690
Right of use operating lease obligations	8,204	496	-	8,700
Refundable advances	65	-	-	65
Other	19,042	10,268	-	29,310
Total current liabilities	274,562	59,110	(23,356)	310,316
Noncurrent Liabilities				
Long-term debt, less unamortized premiums, discounts, and debt issuance costs	610,588	-	-	610,588
Right of use operating lease obligations	111,182	3,192	-	114,374
Custodial funds held for uncontrolled affiliates	57,873	-	-	57,873
Estimated insurance claims payable	11,927	-	-	11,927
Derivative liability	2,587	-	-	2,587
Accrued pension	142,722	-	-	142,722
Accrued deferred compensation	97,613	-	-	97,613
Other	16,814	39	-	16,853
Total noncurrent liabilities	1,051,306	3,231	-	1,054,537
Total liabilities	1,325,868	62,341	(23,356)	1,364,853
Net Assets				
Without donor restrictions				
Undesignated	2,017,921	69,258	-	2,087,179
Noncontrolling interest	24,606	85	-	24,691
Total withour donor restrictions	2,042,527	69,343	-	2,111,870
With donor restrictions	67,771	-	-	67,771
Total net assets	2,110,298	69,343	-	2,179,641
Total Liabilities and Net Assets	$ 3,436,166	$ 131,684	$ (23,356)	$ 3,544,494

Avera Health
Consolidating Statements of Operations
For the Year Ended June 30, 2024
(In Thousands)

	Avera Obligated Group	Non-Obligated Group	Eliminations and Reclassifications	Consolidated
Revenues, Gains, and Other Support				
Patient and resident service revenue	$ 2,750,069	$ -	$ (154,040)	$ 2,596,029
Premium revenue	-	305,553	-	305,553
Other revenue	317,412	15,699	(16,241)	316,870
COVID-19 stimulus revenue	8,887	-	-	8,887
Total revenues, gains, and other support	3,076,368	321,252	(170,281)	3,227,339
Expenses				
Salaries, wages, and benefits	1,592,915	21,360	(9,383)	1,604,892
Supplies	698,473	101	-	698,574
Other	459,638	30,323	(5,260)	484,701
Claims expense	-	261,512	(154,040)	107,472
Interest	25,084	28	-	25,112
Depreciation and amortization	122,114	1,722	-	123,836
Total expenses	2,898,224	315,046	(168,683)	3,044,587
Operating Income	178,144	6,206	(1,598)	182,752
Other Income (Expense)				
Investment income - realized	22,685	2,850	-	25,535
Investment income - unrealized	130,308	1,192	-	131,500
Gain on advance refunding of bonds	1,844	-	-	1,844
Net periodic pension and deferred compensation	(23,793)	-	-	(23,793)
Other nonoperating, net	(32,469)	(293)	-	(32,762)
Change in fair value of interest rate swaps not designated as hedges	761	-	-	761
Reclassification of accumulated losses on interest rate swaps	(324)	-	-	(324)
Total other income (expense)	99,012	3,749	-	102,761
Revenues in Excess of Expenses	277,156	9,955	(1,598)	285,513
Distributions to noncontrolling interests	(5,434)	-	-	(5,434)
Reclassification of accumulated losses on interest rate swap	324	-	-	324
Grants and contributions for capital purposes	3,154	-	-	3,154
Net assets released from restrictions for purchases of property and equipment	2,494	-	-	2,494
Adjustments to the funded status of pension plans	43,614	-	-	43,614
Other changes in net assets	(1,622)	(532)	1,598	(556)
Change in Net Assets without Donor Restrictions	$ 319,686	$ 9,423	$ -	$ 329,109

Avera Health
Consolidating Statements of Operations
For the Year Ended June 30, 2023
(In Thousands)

	Avera Obligated Group	Non-Obligated Group	Eliminations and Reclassifications	Consolidated
Revenues, Gains, and Other Support				
Patient and resident service revenue	$ 2,473,758	$ -	$ (156,007)	$ 2,317,751
Premium revenue	-	321,586	-	321,586
Other revenue	254,356	26,254	(27,832)	252,778
COVID-19 stimulus revenue	10,875	-	-	10,875
Total revenues, gains, and other support	2,738,989	347,840	(183,839)	2,902,990
Expenses				
Salaries, wages, and benefits	1,529,042	22,841	(19,347)	1,532,536
Supplies	611,798	48	-	611,846
Other	407,188	29,975	(8,485)	428,678
Claims expense	-	300,303	(156,007)	144,296
Interest	23,551	-	-	23,551
Depreciation and amortization	114,899	1,671	-	116,570
Total expenses	2,686,478	354,838	(183,839)	2,857,477
Operating Income (Loss)	52,511	(6,998)	-	45,513
Other Income (Expense)				
Investment income - realized	8,191	1,178	-	9,369
Investment income - unrealized	85,876	1,585	-	87,461
Net periodic pension and deferred compensation	(23,552)	-	-	(23,552)
Other nonoperating, net	(22,737)	-	-	(22,737)
Change in fair value of interest rate swaps not designated as hedges	2,199	-	-	2,199
Reclassification of accumulated losses on interest rate swaps	(346)	-	-	(346)
Total other income (expense)	49,631	2,763	-	52,394
Revenues in Excess of (Less Than) Expenses	102,142	(4,235)	-	97,907
Equity transfers	(19,763)	19,763	-	-
Distributions to noncontrolling interests	(1,516)	-	-	(1,516)
Reclassification of accumulated losses on interest rate swap	346	-	-	346
Grants and contributions for capital purposes	9,649	-	-	9,649
Net assets released from restrictions for purchases of property and equipment	5,939	-	-	5,939
Adjustments to the funded status of pension plans	(142,722)	-	-	(142,722)
Other changes in net assets	(1,466)	(671)	-	(2,137)
Change in Net Assets without Donor Restrictions	$ (47,391)	$ 14,857	$ -	$ (32,534)

Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2024

Avera Health

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Avera Health
Sioux Falls, South Dakota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Avera Health (Organization), which comprise the consolidated balance sheet as of June 30, 2024, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 22, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Sioux Falls, South Dakota
October 22, 2024

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Consolidated Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
Avera Health
Sioux Falls, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Avera Health's (Organization) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2024. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2024-001 and 2024-002 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Organization as of and for the year ended June 30, 2024, and have issued our report thereon dated October 22, 2024, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Sioux Falls, South Dakota
March 25, 2025

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title		Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures	Amounts Passed-Through to Subrecipients
Department of Health and Human Services					
Child Health and Human Development Extramural Research	(2), (7)	93.865	N/A	$ 936,868	$ 122,675
Drug Abuse and Addiction Research Programs	(2)	93.279	N/A	271,330	101,345
Healthy Start Initiative		93.926	N/A	10,957	-
Mental and Behavioral Health Education and Training Grants		93.732	N/A	154,032	-
Nurse Education, Practice Quality and Retention Grants		93.359	N/A	216,404	216,404
Primary Care Training and Enhancement		93.884	N/A	592,002	20,216
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement	(1)	93.912	N/A	1,716,416	-
Telehealth Programs		93.211	N/A	43,344	-
Trans-NIH Research Support	(2), (5)	93.310	N/A	5,026,845	479,896
Passed through South Dakota Department of Health					
Maternal and Child Health Services Block Grant to the States		93.994	24C091213, 24SC091216	10,906	-
Medical Assistance Program		93.778	24SC091213, 24SC091216	792	-
Public Health Emergency Preparedness		93.069	24SC091213, 24SC091216	857	-
Rural Health Research Centers	(1), (3)	93.155	H3L42215	1,150,662	-
Small Rural Hospital Improvement Grant Program	(4)	93.301	24SC093117, 24SC093111, 24SC093142, 24SC093112, 24SC093119, 24SC093120, 24093121, 24SC093134, 24SC093140, 24SC093128	133,120	-
Passed through Iowa Department of Public Health					
Rural Health Research Centers	(1), (3)	93.155	Not received	119,133	-
Passed through MN Department of Health					
Rural Health Research Centers	(1), (3)	93.155	202431	194,579	-
Small Rural Hospital Improvement Grant	(4)	93.301	230427, 231929, 231924	34,140	-
Passed through Arkansas Children's Research Institute					
Trans-NIH Research Support	(2), (5)	93.310	Not received	270,336	-
Passed through Baylor College of Medicine					
Cancer Cause and Prevention Research	(2), (6)	93.393	P70000801	14,857	-
Passed through Duke University					
Trans-NIH Research Support	(2), (5)	93.310	WBSE: 38300909, SPS: 280176, 303002679, U2COD023375	93,946	-

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title		Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures	Amounts Passed-Through to Subrecipients
Passed through SD Department of Social Services Division of Behavioral Health					
Block Grants for Prevention and Treatment of Substance Abuse	(2)	93.959	24-085C-605	$ 7,734	$ -
Passed through Nebraska Department of Health and Human Services					
Small Rural Hospital Improvement Grant	(4)	93.301	74616 Y3, 74723 Y3	26,622	-
Passed through NRG Foundation					
Cancer Treatment Research	(2)	93.395	Not received	141,251	-
Passed through Regents of the University of Michigan & University of Cincinnati					
Extramural Research Programs in the Neurosciences and Neurological Disorders	(2)	93.853	011337-143082, 012043-143082	2,000	-
Passed through South Dakota State University					
Trans-NIH Research Support	(2), (5)	93.310	3TC108	342	-
Passed through the Trustees of Columbia University in the City of New York					
Cancer Cause and Prevention Research	(2), (6)	93.393	4(GG017963-01)	233,717	-
Passed through University of Arkansas					
Lung Diseases Research	(2)	93.838	Not received	182,187	-
Trans-NIH Research Support	(2), (5)	93.310	54487	89,767	-
Passed through University of Arkansas for Medical Services					
Child Health and Human Development Extramural Research	(2), (7)	93.865	54005-protocol development	28,329	-
Trans-NIH Research Support	(2), (5)	93.310	54005-leadership	44,091	-
Passed through University of South Dakota					
Biomedical Research and Research Training	(2)	93.859	A24-0029-S001	14,496	-
Graduate Psychology Program		93.191	A23-002-S002-A01	16,216	-
Total for Department of Health and Human Services				11,778,278	940,536

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title		Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures	Amounts Passed-Through to Subrecipients
Centers for Disease Control and Prevention					
Passed through Massachusetts General Hospital					
Injury Prevention and Control Research and State and Community Based Programs	(2)	93.136	239909	$ 81,653	$ -
Passed through Board of Regents of the University of Nebraska					
Alcohol Research Programs	(2)	93.273	24-1714-0333-003	3,791	-
Passed through South Dakota Department of Health					
Organized Approaches to Increase Colorectal Cancer Screening		93.800	24SC091510	2,668	-
Immunization Cooperative Agreements		93.268	24SC091213, 24SC091216	6,467	-
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)		93.323	24SC091805	220,000	-
Passed through Iowa Department of Health					
Preventative Health and Health Services Block Grant		93.991	Not received	1,500	-
Passed through Nebraska Department of Health and Human Services					
Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises		93.391	67032 Y3, 67044 Y3	549,700	-
Total for Centers for Disease Control and Prevention				865,779	-
Department of Agriculture					
Gus Schumacher Nutrition Incentive Program	(2)	10.331	N/A	91,622	-
Distance Learning and Telemedicine Loans and Grants		10.855	N/A	741,001	-
Passed through South Dakota Department of Health					
WIC Special Supplemental Nutrition Program for Women, Infants, and Children		10.557	24SC091213, 24SC091216	26,757	-
Total for Department of Agriculture				859,380	-
Department of Homeland Security					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	(1)	97.036	N/A	8,346,951	-
Passed through SD Department of Public Safety					
Non-Profit Security Program		97.008	23-NPHLS-007	40,000	
Total for Department of Homeland Security				8,386,951	-

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title		Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures	Amounts Passed-Through to Subrecipients
Department of Justice					
Rural Domestic Violence, Dating Violence, Sexual Assault and Stalking Assistance Program		16.589	N/A	$ 27,094	$ -
Crime Victim Assistance/Discretionary Grants	(1)	16.582	N/A	910,423	84,005
Passed through SD Department of Public Safety Office of Victims Services					
Crime Victim Assistance		16.575	2024-COMBO-00050, 2023-COMBO-00037	25,201	-
Passed through University of South Dakota					
OVW Research and Evaluation Program		16.026	AS24-0027-S001	1,615	-
Passed through Minnehaha County					
Comprehensive Opioid, Stimulant, and Other Substances Use Program		16.838	2020-AR-BX-0060	53,980	
Total for Department of Justice				1,018,313	84,005
Department of the Treasury					
Passed through City of Sioux Falls					
Coronavirus State and Local Fiscal Recovery Funds		21.027	SLFRP4366	64,478	-
Total for Department of the Treasury				64,478	-
Department of Transportation					
Passed through South Dakota Department of Transportation					
Enhanced Mobility of Seniors and Individuals with Disabilities	(8)	20.513	812123	21,026	-
Passed through Nebraska Department of Transportation					
Formula Grants for Rural Areas and Tribal Transit Program		20.509	Not received	276,155	-
Total for Department of Transportation				297,181	-
Total Federal Financial Assistance				$ 23,270,360	$ 1,024,541

(1) Denotes a major program
(2) Total for the Research and Development cluster is $7,535,162
(3) Subtotal for Federal CFDA Number 93.155 is $1,464,374
(4) Subtotal for Federal CFDA Number 93.301 is $193,882
(5) Subtotal for Federal CFDA Number 93.310 is $5,525,327
(6) Subtotal for Federal CFDA Number 93.393 is $248,574
(7) Subtotal for Federal CFDA Number 93.865 in $965,197
(8) Total for the Transit Services Programs Cluster is $21,026

Note 1 - Basis of Presentation

The accompanying consolidated schedule of expenditures of federal awards (the schedule) includes the federal award activity of Avera Health (Organization) under programs of the federal government for the year ended June 30, 2024. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated balance sheet, consolidated statement of operations, consolidated changes in net assets or consolidated cash flows of the Organization.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting, except for subrecipient expenditures, which are recorded on the cash basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect Cost Rate

Avera Health and Avera McKennan have negotiated indirect rates. All other sponsored organizations of the Organization have elected to use the 10% de minimis cost rate.

Note 4 - WIC Special Supplemental Nutrition Program for Women, Infants, and Children

Federal reimbursements for the WIC Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA #10.557, are not based upon specific expenditures. Therefore, the amounts reported in the consolidated schedule of expenditures of federal awards represent cash received rather than federal expenditures.

Note 5 - Principles of Consolidation

The consolidated schedule of expenditures of federal awards includes the federal grant activity of Avera Health and its consolidated subsidiaries (collectively, Avera Health) which received federal financial assistance. Significant intercompany balances and transactions have been eliminated in the consolidated schedule of expenditures of federal awards.

The following entities and their associated TIN numbers included within the schedule are as follows: Avera At Home – TIN#460399291, Avera Holy Family – TIN#420680370, Avera Health – TIN#460422673, Avera St. Anthony's – TIN#470463911, Avera St. Benedict's – TIN#460226738, Avera Sacred Heart Hospital – TIN#460225483, Avera St. Luke's – TIN#460224598, Avera St. Mary's – TIN#460230199, Avera Gettysburg – TIN#460234354, Avera Granite Falls – TIN#843156881, Avera McKennan – TIN#460224743, Avera Marshall – TIN#410919153, Avera Queen of Peace – TIN#460224604, Avera Tyler – TIN#410853163, and Heart Hospital of South Dakota – TIN#562143771.

Section I - Summary of Auditor's Results

CONSOLIDATED FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weakness	None reported
Noncompliance material to consolidated financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weakness	Yes
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516 (a):	Yes

Identification of major programs:

Name of Federal Program or Cluster	Federal CFDA Number
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036
Crime Victim Assistance/Discretionary Grants	16.582
Rural Health Research Centers	93.155
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement	93.912

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

2024-001

Department of Justice
Federal Financial Assistance Listing #16.582
Crime Victim Assistance

Activities Allowed and Allowable Costs
Significant Deficiency in Internal Control over Compliance

Department of Health and Human Services
Federal Financial Assistance Listing #93.912
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement

Activities Allowed and Allowable Costs, Period of Performance
Significant Deficiency in Internal Control over Compliance

Criteria: 2 CFR 200.303 (a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and conditions of the federal award.

Condition: Our testing over activities allowed and allowable costs and period of performance identified five employee timecards that were not reviewed and approved by an individual other than the employee.

Cause: There was a lapse the internal control process which allowed the employees to approve their own timecards in these instances.

Effect: The lack of a secondary review of employee timecards could result in improper expenditures being allocated to the federal award.

Questioned Costs: None reported.

Context: A non-statistical sample of 48 transactions was selected for testing for program 16.582, which accounted for $159,466 of $529,020 of federal program payroll expenditures. One employee timecard was not reviewed and approved by an individual other than the employee.

A non-statistical sample of 60 transactions was selected for testing for program 93.912, which accounted for $109,039 of $1,092,627 of federal program payroll expenditures. four employee timecards were not reviewed and approved by an individual other than the employee.

Repeat Finding from Prior Year: No

Recommendation: We recommend the Organization review and strengthen the controls surrounding employee timecard approvals to ensure that all timecards are reviewed and approved by an individual other than the employee.

Views of Responsible Officials: Management agrees with the finding.

2024-002

Department of Homeland Security
Federal Financial Assistance Listing #97.036
Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Activities Allowed and Allowable Costs
Significant Deficiency in Internal Control over Compliance

Criteria: 2 CFR 200.303 (a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and conditions of the federal award.

Condition: Our testing over activities allowed and allowable costs identified instances where the monthly census data for one of the physical locations included within the calculation of contracted labor related to COVID-19 which includes multiple locations was not able to be agreed directly to monthly census data obtained from the Organization as part of the audit process.

Cause: Controls were not in place to ensure that the original monthly census data used in the calculation of contracted labor related to COVID-19 was maintained.

Effect: A lack of controls related to the maintenance of the original monthly census data used in the calculation of contracted labor related to COVID-19 resulted in a reasonable possibility that the Organization would not be able to detect and correct noncompliance in a timely manner.

Questioned Costs: None reported.

Context: A non-statistical sample of eight months out of 36 total months were selected for testing. In four instances, the monthly census data for one location included within the calculation of contracted labor related to COVID-19 which includes multiple locations was not able to be agreed directly to monthly census data obtained from the Organization as part of the audit process.

Repeat Finding from Prior Year: No

Recommendation: We recommend the Organization review and strengthen the controls surrounding the maintenance of monthly census data used in the calculation of contracted labor related to COVID-19.

Views of Responsible Officials: Management agrees with the finding.

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Management's Response to Auditor's Findings: Summary Schedule of Prior Audit Findings and Corrective Action Plan
June 30, 2024

Prepared by Management of
Avera Health

Finding 2023-001 **Preparation of Statements of Cash Flows and Certain Footnotes**
Significant Deficiency

Finding Summary: The Organization has not implemented an internal control system designed to provide for the preparation of the statements of cash flows. As auditors, we were requested to draft the statements of cash flows and certain accompanying footnotes to the consolidated financial statements.

Status: Resolved. The Organization worked closely with the external auditors and transitioned these tasks internally to which the Organization internally prepared all the consolidated financial statements for fiscal year 2024.

Federal Award Finding

Finding 2023-002 **Department of Health and Human Services**
Federal Financial Assistance Listing #93.498
COVID-19 Provider Relief Funds and American Rescue Plan (ARP) Rural Distribution

Preparation of the Consolidated Schedule of Expenditures of Federal Awards
Material Weakness in Internal Control over Compliance - Other

Finding Summary: Management prepared the Schedule for the year ended June 30, 2023. During the audit process, changes were proposed to increase the amount reported related to the COVID-19 Provider Relief Funds and American Rescue Plan (ARP) Rural Distribution programs.

Status: Resolved. The Organization reviewed and strengthened the controls surrounding the preparation of the Consolidated Schedule of Expenditures of Federal Awards. There were no questioned costs related to this finding. The Organization hired additional financial staff who focus on reporting with an emphasis on the Consolidated Schedule of Expenditures of Federal Awards specifically.

Additionally, the Organization implemented a new enterprise resource planning software which includes a grant module. The software includes an automated Consolidated Schedule of Expenditures of Federal Awards.

Finding 2023-003 **Department of Health and Human Services**
Federal Financial Assistance Listing #93.697
COVID-19 Testing and Mitigation for Rural Health Clinics

Period of Performance
Significant Deficiency in Internal Control over Compliance

Activities Allowed and Allowable Costs
Significant Deficiency in Internal Control over Compliance

Finding Summary: Our testing over activities allowed and allowable costs and period of performance identified one expenditure that fell outside of the period of performance under the grant and two expenditures that did not agree to supporting documentation.

Status: Resolved. The Organization reviewed and strengthened the controls surrounding the period of performance and activities allowed and allowable costs. There were no questioned costs related to this finding. The Organization added and highlighted steps within its' expenditure review checklist that specifically addressed detailed review of period of performance and allowability.

Additionally, the Organization has implemented a new enterprise resource planning software which includes a grant module. The grant module has automated controls surrounding period of performance evaluation and costs are drillable to ensure cost claimed and supporting documentation are in alignment.

Finding 2023-004 **Department of Homeland Security**
Federal Financial Assistance Listing #97.036
Disaster Grants - Public Assistance

Activities Allowed and Allowable Costs
Significant Deficiency in Internal Control over Compliance

Finding Summary: Our testing over activities allowed and allowable costs identified one instance where the internal control process failed to identify that the grant was charged at a rate of pay higher than the employee's hourly approved rate of pay.

Status: Resolved. The Organization reviewed and strengthened the controls surrounding activities allowed and allowable costs. There were no questioned costs related to this finding.

The Organization implemented a new enterprise resource planning software which includes a grant module. The grant module has automated controls surrounding allocations of personnel costs.

Finding 2023-005 **Department of Health and Human Services**
Federal Financial Assistance Listing #10.331, 93.136, 93.243, 93.279, 93.310, 93.393, 93.837, 93.838, 93.865, and 93.898
Research and Development Cluster

Activities Allowed and Allowable Costs
Significant Deficiency in Internal Control over Compliance and Noncompliance

Finding Summary: Our testing over activities allowed and allowable costs identified one instance where an employee's time was not properly allocated between two grants. Additionally, there were four instances where the grant was under/over-charged in our recalculation of payroll and fringe benefits.

Status: Resolved. The Organization reviewed and strengthened the controls surrounding activities allowed and allowable costs.

$2,132.52 of questioned costs resulted from one instance where an employee's time was not properly allocated between two grants through a submission of a personal action form (PAF). The Organization has revised its' workflow surrounding submission of personal action forms related to grant time and related costs allowing for more control and visibility of amounts and grants being allocated to.($6.26) of questioned costs resulted from four instances the netted to an under allocation of employee benefits to a grant.

Additionally, the Organization has implemented a new enterprise resource planning software which includes a grant module. The grant module has automated controls surrounding allocations of personnel costs.

Finding 2023-006 **Department of Health and Human Services**
Federal Financial Assistance Listing #93.498
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Activities Allowed and Allowable Costs
Significant Deficiency in Internal Control over Compliance

Finding Summary: Our testing over activities allowed and allowable costs identified four instances where the supporting documentation did not agree with the expenditures claimed in the expenditure listing for the program.

Status: Resolved. The Organization reviewed and strengthened the controls surrounding the period of performance and activities allowed and allowable costs. There were no questioned costs related to this finding.

The Organization implemented a new enterprise resource planning software which includes a grant module. Within the grant module, costs drillable to ensure cost claimed and supporting documentation are in alignment.

Finding 2024-001 **Department of Justice Federal Financial Assistance Listing #16.582**

Activities Allowed and Allowable Costs, Period of Performance
Significant Deficiency in Internal Control over Compliance

Finding Summary: Our testing over activities allowed and allowable costs and period of performance identified five employee timecards that were not reviewed and approved by an individual other than the employee.

Responsible Individuals: Jamie Schaefer, John Neth

Corrective Action Plan: The organization will review and strengthened the controls surrounding activities allowed and allowable costs as well as period of performance compliance. Avera Health has updated its enterprise resource planning system to Workday, which utilizes an effort certification system. Within the effort certification system, Individuals will self-report/certify their time, the certification will then route to the specific grant management staff instead of the cost center supervisor.

Anticipated Completion Date: June 30, 2025

Federal Award Finding

Finding 2024-002 **Department of Health and Human Services**
Federal Financial Assistance Listing #97.036
COVID-19 Provider Relief Funds and American Rescue Plan (ARP) Rural Distribution

Activities Allowed and Allowable Costs Significant Deficiency in Internal Control over Compliance

Finding Summary: Our testing over activities allowed and allowable costs identified instances where the monthly census data for one of the physical locations included within the calculation of contracted labor related to COVID-19 which includes multiple locations was not able to be agreed directly to monthly census data obtained from the Organization as part of the audit process.

Responsible Individuals: Jamie Schaefer, John Neth

Corrective Action Plan: The organization will review and strengthen the controls surrounding activities allowed and allowable costs compliance. Specifically, Avera Health will update its process of using census data reporting in grant projects as the census data is a live data set within the Avera system. For future projects of this nature, the Organization will download a copy of the data set to a calculation support folder so that it has an exact record of the data used in the various grant calculations and the exact data can be referenced later if the live data set changes.

Anticipated Completion Date: June 30, 2025