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# Consolidated Financial Statements and Other Information

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***Ballad Health***

*Years Ended June 30, 2023 and 2022*

# BALLAD HEALTH

## *Table of Contents*

*Years Ended June 30, 2023 and 2022*

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### I. INTRODUCTORY SECTION

Corporate Board Members and Senior Leadership.....	i
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### II. FINANCIAL SECTION

Independent Auditor's Report.....	1
Consolidated Balance Sheets .....	4
Consolidated Statements of Operations .....	6
Consolidated Statements of Changes in Net Assets .....	7
Consolidated Statements of Cash Flows.....	9
Notes to Consolidated Financial Statements.....	11

### III. INTERNAL CONTROL AND COMPLIANCE SECTION

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> - Independent Auditor's Report .....	35
Schedule of Expenditures of Federal Awards.....	37
Schedule of Expenditures of State and Other Financial Assistance .....	44
Notes to Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State and Other Financial Assistance .....	45
Schedule of Findings and Questioned Costs.....	46
Summary Schedule of Prior Audit Findings.....	50
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance - Independent Auditor's Report.....	51
Corrective Action Plan.....	54

**SECTION I**  
**INTRODUCTORY SECTION**

# **CORPORATE BOARD MEMBERS AND SENIOR LEADERSHIP**

## **Corporate Board Members**

Alan Levine, Executive Chairman

Gary Peacock

Dr. Marta Wayt

David Golden

David Lester

Dr. David May

Scott Niswonger

Dr. Brian Noland

Aldo Nosedá

Dr. Doug Springer

Keith Wilson

## **Senior Leadership**

Alan Levine, President & Chief Executive Officer

Marvin Eichorn, Chief Administrative Officer

Eric Deaton, Chief Operating Officer

Lynn Krutak, Chief Financial Officer

Julie Bennett, Chief Legal and Governance Officer

Paige Carter, Chief Audit and Compliance Officer

Dr. Clay Runnels, Chief Physician Executive

Anthony Keck, System Innovation and Chief Population Health Officer

Andy Wampler, General Counsel

Dr. Lisa Smithgall, Chief Nursing Officer

Pam Austin, Chief Information Officer

Karen Guske, COPA Compliance Officer

**SECTION II  
FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Ballad Health:

### ***Report on the Audit of the Financial Statements***

#### ***Opinions***

We have audited the consolidated financial statements of Ballad Health and its subsidiaries (Ballad), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, 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 present fairly, in all material respects, the financial position of Ballad as of June 30, 2023 and 2022, and the 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. 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 Ballad, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ballad'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 Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 Ballard'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 Ballard'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 accompanying Schedule of Expenditure of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the Schedule of Expenditures of State and Other Financial Assistance are presented for purposes of additional analysis and are not a required part of the consolidated

financial statements. The Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of State and Other Financial Assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of State and Other Financial Assistance are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2023 on our consideration of Ballard'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 Ballard'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 Ballard's internal control over financial reporting and compliance.

PYA, P.C.

Knoxville, Tennessee  
October 30, 2023,  
except with respect to the Opinion on  
the Schedule of Expenditures of Federal  
Awards, to which the date is March 19, 2024



**BALLAD HEALTH*****Consolidated Balance Sheets  
(Dollars in Thousands)***

	<i>June 30,</i>	
	<i>2023</i>	<i>2022</i>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 56,885	\$ 148,296
Board-designated funds	2,600	8,725
Current portion of investments	9,141	7,104
Patient accounts receivable	248,709	243,992
Other receivables, net	64,205	58,703
Inventories and prepaid expenses	68,542	62,289
TOTAL CURRENT ASSETS	<b>450,082</b>	529,109
INVESTMENTS, less amounts required to meet current obligations	<b>1,487,935</b>	1,451,659
PROPERTY, PLANT AND EQUIPMENT, net	<b>1,114,132</b>	1,148,436
<b>OTHER ASSETS</b>		
Goodwill	206,028	206,028
Net acquisition costs and other charges	6,235	7,783
Right-of-use asset, operating leases	23,636	27,633
Right-of-use asset, finance leases	4,540	6,080
Other assets	75,254	69,082
TOTAL OTHER ASSETS	<b>315,693</b>	316,606
TOTAL ASSETS	<b>\$ 3,367,842</b>	<b>\$ 3,445,810</b>

**BALLAD HEALTH*****Consolidated Balance Sheets - Continued***  
***(Dollars in Thousands)***

	<i>June 30,</i>	
	<i>2023</i>	<i>2022</i>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accrued interest payable	\$ 16,917	\$ 20,035
Current portion of long-term debt	55,234	53,232
Current portion of operating lease liability	9,147	10,155
Current portion of finance lease liability	951	892
Accounts payable and accrued expenses	172,711	161,143
Accrued salaries, compensated absences and amounts withheld	133,309	146,848
Deferred provider relief funding - Note N	6,005	7,582
Current portion of advanced payments from third-party payers - Note N	-	53,150
Estimated amounts due to third-party payers, net	19,191	15,760
<b>TOTAL CURRENT LIABILITIES</b>	<b>413,465</b>	<b>468,797</b>
<b>OTHER LIABILITIES</b>		
Long-term debt, less current portion	1,310,724	1,394,705
Operating lease liability, less current portion	15,001	17,989
Finance lease liability, less current portion	7,751	8,694
Estimated fair value of derivatives	6,789	5,390
Estimated professional liability self-insurance	24,446	25,479
Other long-term liabilities	51,991	54,211
<b>TOTAL LIABILITIES</b>	<b>1,830,167</b>	<b>1,975,265</b>
<b>COMMITMENTS AND CONTINGENCIES -</b> Notes D, F, G, L, and M		
<b>NET ASSETS</b>		
Net assets without donor restrictions		
Ballad Health	1,502,730	1,424,830
Noncontrolling interests in consolidated subsidiaries	1,187	1,407
<b>TOTAL NET ASSETS</b>		
<b>WITHOUT DONOR RESTRICTIONS</b>	<b>1,503,917</b>	<b>1,426,237</b>
Net assets with donor restrictions		
Ballad Health	33,758	44,308
<b>TOTAL NET ASSETS</b>		
<b>WITH DONOR RESTRICTIONS</b>	<b>33,758</b>	<b>44,308</b>
<b>TOTAL NET ASSETS</b>	<b>1,537,675</b>	<b>1,470,545</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,367,842</b>	<b>\$ 3,445,810</b>

*See notes to consolidated financial statements.*

**BALLAD HEALTH****Consolidated Statements of Operations**  
**(Dollars in Thousands)**

	<i>Year Ended June 30,</i>	
	<b>2023</b>	<b>2022</b>
Revenue, gains, and support:		
Patient service revenue	\$ 2,271,983	\$ 2,174,810
COVID-19 relief funding - Note N	6,691	60,948
Other operating revenue	76,098	77,158
<b>TOTAL REVENUE, GAINS, AND SUPPORT</b>	<b>2,354,772</b>	<b>2,312,916</b>
Expenses:		
Salaries and wages	690,727	679,161
Physician salaries and wages	183,624	177,292
Contract labor	161,342	149,063
Employee benefits	140,672	133,375
Fees	324,568	300,087
Supplies	482,118	464,525
Utilities	37,055	34,131
Other	167,029	160,911
Depreciation and amortization	144,430	146,387
Interest and taxes	55,935	42,769
<b>TOTAL EXPENSES</b>	<b>2,387,500</b>	<b>2,287,701</b>
<b>OPERATING (LOSS) INCOME</b>	<b>(32,728)</b>	<b>25,215</b>
Nonoperating gains (losses):		
Interest and dividend income	36,120	40,206
Net realized gains on the sale of securities	12,603	78,286
Change in net unrealized gains/losses on securities	32,985	(273,767)
Derivative settlement gain	178	135
Change in estimated fair value of derivatives	(1,470)	(4,732)
Gain (loss) on early extinguishment of debt	10,107	(191)
Other nonoperating losses, net	(2,278)	(1,575)
<b>NET NONOPERATING GAIN (LOSS)</b>	<b>88,245</b>	<b>(161,638)</b>
<b>EXCESS (DEFICIT) OF REVENUE, GAINS, AND SUPPORT OVER EXPENSES AND LOSSES</b>	<b>\$ 55,517</b>	<b>\$ (136,423)</b>

*See notes to consolidated financial statements.*

**BALLAD HEALTH****Consolidated Statements of Changes in Net Assets  
(Dollars in Thousands)****Year Ended June 30, 2023**

	<i>Ballad Health</i>	<i>Noncontrolling Interests</i>	<i>Total</i>
NET ASSETS WITHOUT DONOR RESTRICTIONS:			
Excess (Deficit) of Revenue, Gains and Support over Expenses and Losses	\$ 55,694	\$ (177)	\$ 55,517
Pension, defined benefit plan, and other adjustments	5,873	(43)	5,830
Net assets released from restrictions used for the purchase of property, plant and equipment	16,333	-	16,333
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	77,900	(220)	77,680
NET ASSETS WITH DONOR RESTRICTIONS:			
Restricted grants and contributions	8,987	-	8,987
Net assets released from restrictions	(19,537)	-	(19,537)
DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS	(10,550)	-	(10,550)
INCREASE (DECREASE) IN TOTAL NET ASSETS	67,350	(220)	67,130
NET ASSETS, BEGINNING OF YEAR	1,469,138	1,407	1,470,545
NET ASSETS, END OF YEAR	\$ 1,536,488	\$ 1,187	\$ 1,537,675

**BALLAD HEALTH****Consolidated Statements of Changes in Net Assets - Continued**  
**(Dollars in Thousands)****Year Ended June 30, 2022**

	<i>Ballad Health</i>	<i>Noncontrolling Interests</i>	<i>Total</i>
NET ASSETS WITHOUT DONOR RESTRICTIONS:			
Excess (Deficit) of Revenue, Gains and Support over Expenses and Losses	\$ (136,749)	\$ 326	\$ (136,423)
Pension, defined benefit plan, and other adjustments	515	-	515
Net assets released from restrictions used for the purchase of property, plant and equipment	4,472	-	4,472
Purchase of noncontrolling interest in consolidated subsidiary	(20,988)	(293,816)	(314,804)
DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(152,750)	(293,490)	(446,240)
NET ASSETS WITH DONOR RESTRICTIONS:			
Restricted grants and contributions	14,600	-	14,600
Net assets released from restrictions	(8,952)	(29)	(8,981)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	5,648	(29)	5,619
DECREASE IN TOTAL NET ASSETS	(147,102)	(293,519)	(440,621)
NET ASSETS, BEGINNING OF YEAR	1,616,240	294,926	1,911,166
NET ASSETS, END OF YEAR	\$ 1,469,138	\$ 1,407	\$ 1,470,545

## BALLAD HEALTH

### *Consolidated Statements of Cash Flows* *(Dollars in Thousands)*

	<i>Year Ended June 30,</i>	
	<i>2023</i>	<i>2022</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets	\$ 67,130	\$ (440,621)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Provision for depreciation and amortization	144,430	146,387
Change in net unrealized gains/losses on securities	(32,985)	273,767
Change in estimated fair value of derivatives	1,470	4,732
Equity in net income of joint ventures, net	(2,593)	(2,854)
Loss (gain) on early extinguishment of debt	(10,107)	191
Loss on disposal of assets	1,735	1,423
Derivative related income	(178)	(135)
Capital appreciation bond accretion and other	4,105	4,263
Restricted contributions	(8,987)	(14,600)
Pension, defined benefit plan, and other adjustments	(5,830)	(515)
Purchase of noncontrolling interest	-	314,804
Increase (decrease) in cash due to change in:		
Patient accounts receivable	(4,717)	(11,608)
Other receivables, net	(5,454)	9,539
Inventories and prepaid expenses	(6,253)	7,787
Trading securities	(5,264)	(134,497)
Other assets	(6,514)	4,005
Accrued interest payable	(3,118)	(99)
Accounts payable and accrued expenses	24,149	(52,808)
Accrued salaries, compensated absences and amounts withheld	(13,539)	11,852
Deferred provider relief funding	(1,577)	1,577
Estimated amounts due to third-party payers, net	3,431	4,733
Estimated professional liability self-insurance	(1,033)	3,893
Other long-term liabilities	3,610	(23,523)
Total adjustments	<u>74,781</u>	<u>548,314</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<b>141,911</b>	107,693
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment and property held for expansion	(125,855)	(89,793)
Held-to-maturity securities released from restrictions	(64)	(21)
Net distribution from joint ventures and unconsolidated affiliates	2,439	2,439
Proceeds from sale of property, plant and equipment and property held for resale	3,361	4,247
Purchase of noncontrolling interest	-	(146,141)
NET CASH USED IN INVESTING ACTIVITIES	<b>(120,119)</b>	(229,269)

*See notes to consolidated financial statements.*

**BALLAD HEALTH****Consolidated Statements of Cash Flows - Continued**  
**(Dollars in Thousands)**

	<i>Year Ended June 30,</i>	
	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on long-term debt, including deposits to escrow and refinanced debt obligations	<b>(401,273)</b>	(155,320)
Proceeds from debt issuance	<b>330,117</b>	128,945
Payments on finance lease liabilities	<b>(884)</b>	(1,348)
Payment of financing costs	<b>(3,351)</b>	(163)
Net amounts received on interest rate swap settlements	<b>178</b>	135
Restricted contributions received	<b>9,035</b>	10,985
Recoupment of advanced payments from third-party payers	<b>(53,150)</b>	(125,776)
NET CASH USED IN FINANCING ACTIVITIES	<b>(119,328)</b>	(142,542)
NET DECREASE IN CASH AND CASH EQUIVALENTS	<b>(97,536)</b>	(264,118)
CASH AND CASH EQUIVALENTS, beginning of year	<b>157,021</b>	421,139
CASH AND CASH EQUIVALENTS, end of year	<b>\$ 59,485</b>	\$ 157,021
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS ON CONSOLIDATED STATEMENTS OF CASH FLOWS TO THE CONSOLIDATED BALANCE SHEETS:</b>		
Cash and cash equivalents	<b>\$ 56,885</b>	\$ 148,296
Board-designated funds	<b>2,600</b>	8,725
	<b>\$ 59,485</b>	\$ 157,021
<b>SUPPLEMENTAL INFORMATION AND NON-CASH TRANSACTIONS:</b>		
Cash paid for interest	<b>\$ 55,685</b>	\$ 46,283
Cash paid for finance leases	<b>\$ 1,662</b>	\$ 2,209
Cash paid for operating leases	<b>\$ 12,077</b>	\$ 11,573
Issuance of promissory note	<b>\$ -</b>	\$ 168,663
Capital related payables in accounts payable, accrued expenses, and other long-term liabilities	<b>\$ 7,055</b>	\$ 19,636

## **BALLAD HEALTH**

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

*Years Ended June 30, 2023 and 2022*

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#### NOTE A--ORGANIZATION AND OPERATIONS

Ballad Health (Ballad) is a tax-exempt entity and the parent corporation of both Mountain States Health Alliance (MSHA) and Wellmont Health System (WHS). The two healthcare systems came together on February 1, 2018 as a result of a merger approved by both the Tennessee and Virginia Departments of Health. Ballad operates under a Certificate of Public Advantage (COPA) in Tennessee and a Cooperative Agreement (CA) in Virginia. Pursuant to the COPA and CA, MSHA and WHS (the COPA Parties) shall fulfill the obligations, commitments and covenants set forth in the COPA and the CA. Such obligations include that Ballad shall meet established minimum spending criteria over the ten-year period beginning July 1, 2018 on initiatives for expanded access to healthcare services, health research and graduate medical education, population health improvement, and a region-wide health information exchange. The full text of the COPA can be found on the Tennessee Department of Health's website, while the CA can be found on the Virginia Department of Health's website. Ballad is a healthcare delivery system serving 29 counties in Northeast Tennessee, Southwest Virginia, Northwest North Carolina, and Southeastern Kentucky. Ballad operates 3,036 licensed beds in 21 hospitals, including a dedicated children's hospital, community hospitals, four critical access hospitals, a behavioral health hospital, an addiction treatment facility, long-term care facilities, home care and hospice services, retail pharmacies, outpatient services and a comprehensive medical management corporation.

Prior to July 1, 2021, the accompanying consolidated financial statements included all assets, liabilities, revenues, expenses and changes in net assets attributable to non-controlling interests in the following subsidiaries:

- Smyth County Community Hospital and Subsidiary (80% interest)
- Johnston Memorial Hospital, Inc. and Subsidiaries (50.1% interest)

Effective July 1, 2021, Ballad purchased the non-controlling interests in both Smyth County Community Hospital and Subsidiary and Johnston Memorial Hospital, Inc. and Subsidiaries.

Ballad is the primary beneficiary of fundraising and development activities of the Ballad Health Foundation, which was created through the merger of Mountain States Foundation, Inc., Laughlin Health Care Foundation, and the Wellmont Foundation. The results of the Ballad Health Foundation are reflected in the accompanying consolidated financial statements.

#### NOTE B--SIGNIFICANT ACCOUNTING POLICIES

*Principles of Consolidation:* The accompanying consolidated financial statements include the accounts of Ballad and its consolidated subsidiaries after elimination of all significant intercompany accounts and transactions. A minority interest is recorded for certain consolidated Ballad facilities and subsidiaries to represent non-controlling or minority interests in the operations and net assets of entities not 100% owned by Ballad.

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## **BALLAD HEALTH**

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

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

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*Use of Estimates:* The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Significant estimates include allowances for explicit and implicit price concessions, amounts due to or from third-party payers, investment valuations, depreciable lives and impairment considerations of property, plant and equipment, goodwill, derivatives and professional and other insurance liabilities. Actual results could differ from these estimates.

*Cash and Cash Equivalents:* Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents designated as assets limited as to use or uninvested amounts included in investment portfolios are not included as cash and cash equivalents. Earnings and gains and losses on investments are recognized as nonoperating gains and losses in the Consolidated Statements of Operations as investments are considered to be peripheral to primary operations. Activity related to trading securities is categorized as an operating activity in the Consolidated Statements of Cash Flows based on the nature of those investments.

*Board-designated Funds:* Board-designated funds include cash and cash equivalents held at a financial institution. Due to the outbreak of the coronavirus disease 2019 (COVID-19), certain spending commitments as outlined in the COPA and the CA were suspended by the Tennessee and Virginia Departments of Health from March 2020 until June 2021. Prior to the suspension of these spending commitments in March 2020, Ballard and the Tennessee and Virginia Departments of Health agreed to shortfalls on the spending commitments in the previous fiscal years. In response, Ballard created board-designated funds into which spending commitment shortfall amounts have been funded until such shortfalls have been remedied.

*Investments:* Substantially all investments are classified as trading securities at June 30, 2023. All debt and marketable equity securities classified as trading securities, which have a readily determinable fair value, are reported at fair value based on quoted market prices. Other investments, including alternative investments, are reported at the net asset value per share as a practical expedient. Certain other investments without quoted market prices are reported at estimated fair market value utilizing observable and unobservable inputs. Realized gains and losses are computed using the specific identification method for cost determination. Interest and dividend income is reported net of related investment fees.

Investments in limited partnerships are recorded at net asset value as determined by the partnership. Certain investments without readily determinable fair values, including private investments, hedge funds, real estate, and other funds, are recorded at net asset value per share. Investments in joint ventures over which Ballard exercises significant control, but does not control, are reported under the equity method of accounting, which approximates the equity and ownership

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## **BALLAD HEALTH**

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

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

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of Ballad in the underlying net book value. Other assets include investments in joint ventures of \$23,864 and \$17,495 at June 30, 2023 and 2022, respectively. Ballad may be required to fund operating losses and guarantee debt on certain joint ventures although management believes the amount of any funding will not be material.

Investments are reported as long-term unless designated for the repayment of current liabilities.

*Inventories:* Inventories, consisting primarily of medical supplies, are stated at the lower of cost or net realizable value with cost determined by first-in, first-out and average cost methods.

*Property, Plant and Equipment:* Property, plant and equipment is stated on the basis of cost, or if donated, at the fair value at the date of gift. Generally, depreciation is computed by the straight-line method over the estimated useful life of the asset. Renewals and betterments are capitalized and depreciated over their useful life, whereas costs of maintenance and repairs are expensed as incurred. Asset retirement obligations at June 30, 2023 and 2022 are approximately \$3,886 and \$3,774, respectively, and are included in other long-term liabilities.

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. The amount capitalized is net of investment earnings on assets limited as to use derived from borrowings restricted for capital assets.

Ballad reviews capital assets for indications of potential impairment when there are changes in circumstances related to a specific asset. If this review indicates that the carrying value of these assets may not be recoverable, a write-down to estimated fair value is recorded. No impairment losses were recognized during the years ended June 30, 2023 and 2022.

Other assets include property held for resale and expansion of \$14,240 and \$14,298 at June 30, 2023 and 2022, respectively. Property held for resale and expansion primarily represents land contributed, or purchased, plus costs incurred to develop the infrastructure of such land. Management annually evaluates its investment and records non-temporary declines in value when it is determined the ultimate net realizable value is less than the recorded amount. No such declines were identified during the years ended June 30, 2023 and 2022.

*Leases and Right-of-Use Assets:* The present value of lease payments is recorded as a lease liability at the commencement of a lease contract that has a term in excess of one year. The present value is determined by discounting the required payments using the stated interest rate in the lease or, if not stated, Ballad's incremental borrowing rate. Payments include options to extend, or terminate, if Ballad determines that it is reasonably certain that such options will be exercised. A right-of-use asset is also recorded equal to the lease liability plus any initial direct cost, prepayments, or incentives.

## **BALLAD HEALTH**

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

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

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*Goodwill:* Goodwill is evaluated for impairment at least annually, considering qualitative and quantitative factors. Ballad is considered to be one reporting unit for the evaluation. Management does not believe any goodwill is impaired as of June 30, 2023 and 2022. Management utilized significant estimates in the evaluation, and it is reasonably possible that such estimates could change in the near term.

*Deferred Financing, Acquisition Costs and Other Charges:* Deferred acquisition costs and other charges total \$6,235 and \$7,783 at June 30, 2023 and 2022, respectively, and are recorded in other assets in the Consolidated Balance Sheets. Deferred financing costs are amortized over the term of the respective debt issue utilizing a method which approximates the effective interest method and are reported as a component of long-term debt. Deferred financing costs are net of accumulated amortization.

*Derivative Financial Instruments:* Ballad is a party to various interest rate swaps (Note D). These financial instruments are not designated as hedges and have been presented at estimated fair market value in the accompanying Consolidated Balance Sheets as long-term liabilities, based upon the remaining term of the instrument. Even though not designated as hedges, the purpose of the interest rate swaps is to reduce the volatility of market rates associated with outstanding debt. The estimated fair value is based on amounts that would be received or paid for similar agreements at the consolidated balance sheet date. Changes in the estimated fair value are included as nonoperating gains and losses in the accompanying Consolidated Statements of Operations. For derivative financial instruments classified as total return swaps, cash settlements are reported as interest expense or reduction in interest expense. For all other derivative financial instruments, cash settlements are reported as derivative related income in the accompanying Consolidated Statements of Operations.

*Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities:* Self-insurance liabilities include estimated reserves for reported and unreported professional liability claims and are recorded at the estimated net present value of such claims. Other long-term liabilities include contributions payable, obligations under deferred compensation arrangements, defined benefit pension plans, and post-retirement employee benefit plans, as well as other liabilities.

*Patient Service Revenue/Receivables:* Patient service revenue is reported on the accrual basis and reflects the expected payment for services provided during the period. Retroactive adjustments for third-party payers are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or additional information is obtained.

Revenue is recognized as performance obligations are satisfied. Performance obligations are defined as the distinct inpatient and outpatient services delivered to the patient and are determined based on the nature of the services provided and may have a term of several days or longer.

## **BALLAD HEALTH**

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

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

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Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges.

Performance obligations relate to contracts with a duration of less than one year. Any unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which typically occurs within days or weeks of the end of the reporting period.

Ballad determines the transaction price for patient service revenue based on standard charges for goods and services provided, reduced by explicit and implicit price concessions. Explicit price concessions are contractual adjustments provided to third-party payers and discounts provided to uninsured patients. Contractual adjustments and discounts are determined based on contractual agreements, discount policies, and historical experience. Implicit price concessions are other adjustments based on historical collection experience provided to uninsured or under-insured patients.

Patient accounts receivable are reported net of both an estimated allowance for explicit and implicit price concessions. Changes in estimates for these allowances resulted in an increase in patient service revenue of approximately \$19,000 and \$17,000 during the years ended June 30, 2023 and 2022, respectively. For uninsured patients that do not qualify for financial assistance, revenue is recognized on the basis of discounted rates. Patients who have no insurance and are ineligible for any government assistance are billed at rates generally billed to commercially insured patients. Ballad routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. Ballad also provides services to uninsured and under-insured patients that do not qualify for financial assistance.

Using a portfolio approach, Ballad estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. In addition, for uninsured patients, Ballad reduces charges from current rates based on average discounts provided to certain third-party payers. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are recorded as adjustments to patient service revenue in the period of the change. Adjustments for such changes in the estimated transaction price were not significant for the years ended June 30, 2023 and 2022. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. No significant amount of bad debt expense was reported for the years ended June 30, 2023 and 2022. However, implicit price concessions for uninsured or underinsured patients are recorded in the period services are provided and totaled \$161,233 and \$168,959 for the years ended June 30, 2023 and 2022, respectively.

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## **BALLAD HEALTH**

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

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

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*Charity Care:* Ballad accepts all patients regardless of their ability to pay. Patients are eligible to receive financial assistance based on established policies and various guidelines outlined by the Federal Government. These policies define charity as those services for which no payment is anticipated and, as such, charges at established rates are not included in patient service revenue. Charges forgone, based on established rates, totaled \$138,799 and \$123,616 during the years ended June 30, 2023 and 2022, respectively. The estimated direct and indirect cost of providing these services totaled \$28,723 and \$26,240 for the years ended June 30, 2023 and 2022, respectively. Such costs are determined using a ratio of costs to charges, including an allocation for indirect costs.

In addition to the charity care services, Ballad provides a number of other services to benefit the indigent. Medicare, Medicaid, TennCare and State indigent programs do not cover the full cost of providing care to beneficiaries. Ballad also provides services, to the community at large, for which it receives little or no payment.

*Excess (Deficit) of Revenue, Gains and Support Over Expenses and Losses:* The Consolidated Statements of Operations and the Consolidated Statements of Changes in Net Assets include the caption Excess (Deficit) of Revenue, Gains and Support Over Expenses and Losses (the Performance Indicator). Changes in net assets without donor restrictions are excluded from the Performance Indicator, consistent with industry practice, and include contributions of long-lived assets or amounts restricted to the purchase of long-lived assets, certain pension and related adjustments, and transactions with noncontrolling interests.

*Income Taxes:* Ballad is classified as an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for federal income taxes is included in the accompanying consolidated financial statements. Taxable subsidiaries are discussed in Note K. No significant uncertain tax positions exist at June 30, 2023 and 2022. Tax returns for 2020 through 2022 are subject to examination by the Internal Revenue Service.

*Net Assets with Donor Restrictions:* Net assets with donor restrictions are assets limited by donors to a specific time period or purpose or designated to be maintained in perpetuity. When a donor or time restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as other operating revenue in the Consolidated Statements of Operations and Changes in Net Assets. Net assets restricted by donors for purposes of capital purchases or construction are reported in the Consolidated Statements of Operations and Changes in Net Assets as net assets released from restrictions when the purpose restriction is fulfilled. Donor-restricted contributions are classified as increases in net assets with donor restrictions if restrictions are satisfied in the same reporting period they are received. Contribution and grant revenue, excluding COVID-19 relief funding (see Note N), is net of expenses and presented as part of nonoperating gains (losses) in the Consolidated Statements of Operations.

## BALLAD HEALTH

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

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

*Reclassifications:* Certain 2022 amounts have been reclassified in the consolidated financial statements to conform to the 2023 presentation.

#### NOTE C--INVESTMENTS

Certain assets reported as investments in the Consolidated Balance Sheets are limited as to use and are summarized by designation or restriction as follows at June 30:

	<u>2023</u>	<u>2022</u>
Designated or restricted:		
Under safekeeping agreements	\$ 7,945	\$ 7,877
Under self-insurance agreements	30,274	28,533
By Board to satisfy regulatory requirements	67	118
Under bond indenture agreements:		
For debt service and interest payments	178,671	221,949
	<u>216,957</u>	<u>258,477</u>
Less: amount required to meet current obligations	(9,141)	(7,104)
	<u>\$ 207,816</u>	<u>\$ 251,373</u>

Assets limited as to use consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 47,624	\$ 50,807
U.S. Government and agency securities	69,384	71,537
Mutual funds	39,292	74,612
Municipal obligations	1,739	2,429
Corporate and foreign bonds	58,918	59,092
	<u>\$ 216,957</u>	<u>\$ 258,477</u>

Trading securities consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 40,103	\$ 25,668
U.S. Government and agency securities	57,836	53,170
Corporate and foreign bonds	66,966	69,078
Municipal obligations	546	295
U.S. equity securities	67,208	67,975
Mutual funds	916,241	828,016
Alternative investments and other	131,219	156,084
	<u>\$ 1,280,119</u>	<u>\$ 1,200,286</u>

## BALLAD HEALTH

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

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

Ballad is a member of the Premier Inc. (Premier) group purchasing organization and held Class B units which were convertible into cash or Class A common stock over a seven-year vesting period. All remaining Class B units were previously converted to Class A common stock, which is included in U.S. equity securities in the table above. During the year ended June 30, 2021, Ballad entered into a Tax Receivable Acceleration Agreement (TRA) with Premier as part of an effort to simplify the equity structure of Premier. The TRA calls for Ballad to receive 18 equal quarterly payments, beginning in March 2021. No operating revenue related to this conversion was recorded during the years ended June 30, 2023 and 2022. The remaining receivable TRA balance of \$1,624 and \$2,916 at June 30, 2023 and 2022, respectively, is included in other receivables, net in the Consolidated Balance Sheets.

Investment agreements in certain limited partnerships contain commitments to contribute additional funding of \$5,230 in the form of capital calls as of June 30, 2023.

#### NOTE D--DERIVATIVE TRANSACTIONS

Ballad is a party to a number of interest rate swap agreements, not designated as hedges, and valued at estimated fair value in the accompanying Consolidated Balance Sheets. Derivative financial instruments contain credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes Ballad, which exposes Ballad to the credit risk of the counterparty. Market risk is the adverse effect on the value of a derivative instrument resulting from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Ballad is subject to an enforceable master netting arrangement in the form of International Swaps and Derivatives Association (ISDA) agreements with the counterparty. The ISDA agreement requires additional collateral for the derivatives' fair market value deficits above specified levels. As of June 30, 2023 and 2022, no additional collateral was required. Under the terms of this agreement, offsetting of derivative contracts is permitted in the event of default of either party to the agreement.

The following is a summary of the interest rate swap agreements at June 30:

Notional Amount	Termination	Counterparty	Current Payments:		Estimated Fair Value	
			Receive	Pay	2023	2022
\$ 82,055	7/2033	BofAML	67% USD-LIBOR-BBA	0.312% + USD-SIFMA	\$ (5,086)	\$ (6,343)
\$ 50,000	7/2038	BofAML	67% (USD-LIBOR-BBA + 0.145%)	USD-SIFMA	(2,561)	(3,492)
\$ 51,310	5/2025	BofAML	6.00% - 6.50%	USD-SIFMA + 0.80%	452	1,270
\$ 180,420	5/2025	BofAML	5.25%	77.5% USD 1 Month LIBOR + 0.78%	406	3,175
					<u>\$ (6,789)</u>	<u>\$ (5,390)</u>

## BALLAD HEALTH

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

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

Ballad recognized net derivative settlement gain on the interest rate swap agreements of \$178 and \$135 in the years ended June 30, 2023 and 2022, respectively, in the Consolidated Statements of Operations. Interest expense was reduced by \$3,900 and \$10,358 in the years ended June 30, 2023 and 2022, respectively, for cash settlements received on interest rate swap agreements.

#### NOTE E--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
Land	\$ 130,093	\$ 129,335
Buildings and leasehold improvements	1,537,825	1,509,224
Property and improvements held for leasing	85,606	82,219
Equipment and information technology infrastructure	1,515,233	1,465,913
	<u>3,268,757</u>	<u>3,186,691</u>
Less: Allowances for depreciation and amortization	(2,171,209)	(2,055,370)
	1,097,548	1,131,321
Construction in progress	16,584	17,115
	<u>\$ 1,114,132</u>	<u>\$ 1,148,436</u>

Accumulated depreciation and amortization on property and improvements held for leasing purposes is \$32,632 and \$30,006 at June 30, 2023 and 2022, respectively. Net interest capitalized was \$465 and \$342 for the years ended June 30, 2023 and 2022, respectively.

#### NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt and finance lease obligations consist of the following at June 30:

<i>Description</i>	<i>Rate as of June 30, 2023</i>	<i>Outstanding Balance</i>	
		<i>2023</i>	<i>2022</i>
2023 Hospital Revenue Bonds:			
(net of unamortized premium of \$22,626 at June 30, 2023)			
\$145,845 fixed rate tax-exempt term bond, due July 2034	5.00%	\$ 208,026	\$ -
\$39,555 fixed rate tax-exempt term bond, due July 2033	5.00%		
2022 Hospital Revenue Bond:			
\$75,000 fixed rate tax-exempt term bond, due July 2042	2.99%	250,000	128,145
\$53,145 variable rate tax-exempt term bond, due July 2041	4.10%		
\$121,855 tax-exempt term bond interest only until 2040, due July 2045	4.08%		
2018 Hospital Revenue Bonds:			
(net of unamortized premium of \$23,628 in 2023 and \$36,941 in 2022)			
\$315,830 fixed rate tax-exempt serial and term bonds, due July 2044	4%-5%	461,388	816,566
\$121,930 variable rate tax-exempt term bond, due July 2045	3.75%		



## BALLAD HEALTH

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

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

<i>Description</i>	<i>Rate as of June 30, 2023</i>	<i>Outstanding Balance</i>	
		<i>2023</i>	<i>2022</i>
2011 Hospital Revenue Refunding Bonds:			
\$17,530 fixed rate tax-exempt term bond, due September 2026	* 6.00%	51,310	57,205
\$33,780 fixed rate tax-exempt term, interest and principal due September 2026 through 2032	* 6.50%		
2006 Hospital Revenue Bond: (net of unamortized premium of \$2,265 in 2023 and \$2,823 in 2022)			
\$161,445 fixed rate tax-exempt term bond, interest and principal due through 2036	* 5.25%	163,710	183,243
2000 Hospital First Mortgage Revenue and Refunding Bonds:			
\$18,650 fixed rate tax-exempt term bond, due July 2026	8.50%	85,717	85,235
\$67,067 fixed rate tax-exempt Capital Appreciation Bond, interest and principal due July 2026 through 2030	6.63%		
Norton Promissory Note			
Various monthly principal and interest payments through July 2024	** 2.48%	4,918	14,401
JMH Promissory Note			
Various monthly principal and interest payments through November 2029	1.70%	147,580	168,663
Promissory notes secured by assets of certain entities			
Various monthly principal and interest payments through July 2029	Various	984	1,151
		1,373,633	1,454,609
Less current portion		(55,234)	(53,232)
Bond issuance costs		(7,675)	(6,672)
		<u>\$ 1,310,724</u>	<u>\$ 1,394,705</u>

\* Total return interest rate swaps are outstanding on these issuances

\*\* Imputed interest rate

**Series 2023 Bonds:** In May 2023, Ballad issued \$145,845 (Series 2023A) Hospital Revenue Refunding Bonds and \$39,555 (Series 2023B) Hospital Revenue Improvement Bonds through the Health and Educational Facilities Board of the City of Johnson City, Tennessee. The proceeds of the Series 2023A Bonds were placed in escrow to refund a portion of the Series 2018A bonds, and the proceeds of the Series 2023B Bonds will be used for construction, equipment, and information technology improvements.

**Series 2022 Bonds:** In June 2022, Ballad issued \$75,000 (Series 2022A) and \$53,145 (Series 2022C) Hospital Revenue Bonds through the Health and Educational Facilities Board of the City of Johnson City, Tennessee. In July 2022, Ballad issued \$121,855 (Series 2022B) Hospital Revenue Bonds through the Health and Educational Facilities Board of the City of Johnson City, Tennessee. The proceeds of the Series 2022A Bonds were used to refinance the Series 2012A Hospital Revenue Bonds and to finance the acquisition, construction, improvement, and equipping of certain capital projects. The proceeds of the Series 2022C Bonds were used to finance the acquisition, construction, improvement, and equipping of capital projects. Proceeds of the Series 2022B bonds were used to refund \$120,665 of the Series 2018C Bonds.

## **BALLAD HEALTH**

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

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

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*Series 2018 Bonds:* In June 2018, Ballad issued \$535,170 (Series 2018A) Hospital Revenue Bonds, \$121,930 (Series 2018B) Hospital Revenue Bonds, \$120,665 (Series 2018C) Hospital Revenue Bonds, and \$117,070 (Series 2018D) Hospital Revenue Bonds through the Health and Educational Facilities Board of the Town of Greeneville, Tennessee (collectively, the Series 2018 Bonds). The proceeds of the Series 2018 Bonds were used to refinance outstanding certain indebtedness of MSHA and WHS and to pay issuance costs associated with these Bonds.

*Capital Appreciation Bonds:* The Series 2000 Bonds include \$14,680 of insured Capital Appreciation Bonds. Such bonds bear a 0% coupon rate and have a yield of 6.625% annually. Ballad recognizes interest expense and increases the amount of outstanding debt each year based upon this yield. Total principal and interest due at maturity (2026 through 2030) is \$93,675.

*Other:* Outstanding tax-exempt bond obligations that were insured under municipal bond insurance policies were \$85,717 and \$85,235 at June 30, 2023 and 2022, respectively. Under terms of these policies, the insurer guarantees payment of principal and interest. Variable rate demand bonds with letter of credit support totaled \$296,930 and \$175,075 and variable rate bonds held under direct purchase agreements totaled \$75,000 and \$165,735 at June 30, 2023 and 2022, respectively.

*Promissory Notes:* On November 10, 2021, Ballad signed a promissory note (the JMH note) for \$168,663 as part of the purchase of the non-controlling interest in Johnston Memorial Hospital. The JMH note bears interest at a fixed annual rate of 1.7% and is payable over an eight-year period, with the first installment paid during the year ended June 30, 2023.

On September 30, 2019, Ballad signed a promissory note (the Norton note) for \$26,200 as part of the acquisition of the non-controlling interest in Norton Community Hospital. No interest is payable under the terms of the Norton note. The liability for the Norton note is recorded at present value, computed with an effective annual rate of 2.48%.

*Early Redemption:* The majority of the bonds are subject to redemption prior to maturity, including optional, mandatory sinking fund and extraordinary redemption, at various dates and prices as described in the respective bond indentures and other documents.

*Derecognized Bonds:* Debt has been advance refunded by placing required funds in irrevocable trusts in order to satisfy remaining scheduled principal and interest payments of the outstanding debt. Management, upon advice of legal counsel, believes the amounts deposited in such irrevocable trust accounts have contractually relieved Ballad of any future obligations with respect to this debt. Debt outstanding and not recognized in the Consolidated Balance Sheets at June 30, 2023 due to previous advance refundings totaled \$293,150.

The assets placed in the irrevocable trust accounts are also not recognized as assets of Ballad. These assets consist primarily of various investments, as permitted by bond indentures and other

## BALLAD HEALTH

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

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

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documents, including United States Treasury obligations, an investment contract with MBIA Insurance Corporation (MBIA) in the original amount of \$54,300, as well as the Series 2000C and 2000D Bonds. Therefore, certain of the assets held in the irrevocable trust accounts have future income streams contingent upon payments by Ballad.

*Financing Arrangements:* Ballad granted a deed of trust on Johnson City Medical Center and Sycamore Shoals Hospital to secure the payment of the outstanding bond indebtedness. The bonds are also secured by receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued.

Certain entities of Ballad are members of the Obligated Group. The bond indentures, master trust indentures, letter of credit agreements and loan agreements related to the various bond issues and notes payable contain covenants with which the Obligated Group must comply. These requirements include maintenance of certain financial and liquidity ratios, deposits to trustee funds, permitted indebtedness, use of facilities, and disposals of property. These covenants also indicate that failure to meet certain debt service coverage tests will require the deposit of all daily cash receipts of the Obligated Group entities into a trust fund. Ballad is in compliance with all such covenants at June 30, 2023. As dictated in the master trust indenture, if, as of the end of the fiscal year, the total revenue or assets (or both) of the Obligated Group comprise less than 75% of the total revenue or assets (as applicable) of Ballad, then supplemental schedules showing information related only to the Obligated Group are required. As of June 30, 2023, the Obligated Group comprised greater than 75% of total revenue and total assets of Ballad, and therefore no supplemental schedules of the Obligated Group are required as of and for the year ended June 30, 2023.

The scheduled maturities and mandatory sinking fund payments of the long-term debt obligations (excluding interest), exclusive of net unamortized original issue discount and premium, at June 30, 2023 are as follows:

<u>Year Ending June 30,</u>	
2024	\$ 55,234
2025	57,449
2026	54,459
2027	49,724
2028	46,068
Thereafter	1,062,180
	<hr/>
	1,325,114
Net premium	48,519
	<hr/>
	\$ 1,373,633
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## **BALLAD HEALTH**

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

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

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#### **NOTE G--SELF-INSURANCE PROGRAMS**

Ballad is substantially self-insured for professional and general liability claims and related expenses. MSHA facilities maintain self-insurance limits of \$10,000 per claim and a \$20,000 annual aggregate retention. Wellmont Insurance Company SPC, Ltd., a wholly-owned captive insurance company, had assets of \$30,274 and \$28,533 as of June 30, 2023 and 2022, respectively, limited to use for self-insurance liabilities. The WHS self-insurance program carries limits of \$10,000 per occurrence and a \$20,000 annual aggregate retention. Ballad maintains a \$30,000 umbrella liability policy covering both MSHA and WHS. Ballad also provides professional liability coverage for certain affiliates and joint ventures.

Ballad is self-insured for workers' compensation claims and has established estimated liabilities for both reported and unreported claims. Ballad maintains stop-loss policies that attach over the self-insurance limits.

At June 30, 2023, Ballad is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through June 30, 2023 that may result in the assertion of additional claims and other unreported claims may be asserted arising from services provided in the past. Management has estimated and accrued for the cost of these unreported claims based on historical data and actuarial projections. There is at least a reasonable possibility that a change in the estimated liability could occur in the near term. The estimated net present value of malpractice and workers' compensation claims, both reported and unreported, as of June 30, 2023 and 2022 was \$38,323 and \$39,850, respectively. The discount rates utilized were 2% at June 30, 2023 and 2022.

Additionally, Ballad is self-insured for employee health claims and recognizes expense each period based upon actual claims paid and an estimate of claims incurred but not yet paid. Such amounts are included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

#### **NOTE H--PATIENT SERVICE REVENUE**

Ballad has agreements with various third-party payers that provide for payments at amounts different from established rates. A summary of the payment arrangements with significant third-party payers follows:

*Medicare:* The Medicare program pays for inpatient services on a prospective basis. Payments are based upon diagnosis related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. Ballad also receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid and other low-income patients. Most Medicare outpatient services are reimbursed on a prospectively determined payment methodology. The Medicare program also reimburses certain other services on the basis of reasonable cost, specifically for critical access hospitals, subject to various prescribed limitations and reductions.

## BALLAD HEALTH

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

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

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*Medicaid:* Reimbursement under the State of Tennessee's Medicaid waiver program (TennCare) for inpatient and outpatient services is administered by various managed care organizations (MCOs) and is based on diagnosis related group assignments, a negotiated per diem or fee schedule basis. Ballard also recognized revenues of \$27,015 and \$42,721 from additional supplemental payments from TennCare for the years ended June 30, 2023 and 2022, respectively.

The Virginia Medicaid program reimbursement for inpatient hospital services is based on a prospective payment system using both a per case and per diem methodology. Additional payments are made for the allowable costs of capital. Payments for outpatient services are also based on a prospective payment system, using the Enhanced Ambulatory Patient Group (EAPG) methodology. Ballard also recognized revenues of \$40,685 and \$31,988 additional supplemental payments from the Commonwealth of Virginia for the years ended June 30, 2023 and 2022, respectively.

*Other:* Ballard has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and employer groups. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Amounts recorded under certain of these contractual arrangements are subject to review and final determination by various program intermediaries. Settlements with third-party payers 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 payer, correspondence from the payer, and historical settlement activity, including an assessment to ensure that a significant reversal of revenue recognized will not occur. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled and are no longer subject to such audits, reviews, and investigations. During the year ended June 30, 2023, final settlements for many prior period cost reports were received. Patient service revenue for the year ended June 30, 2023 increased by approximately \$21,404 as a result of changes in or adjustments to prior years' settlement estimates or final settlements of prior periods. Changes in or adjustments to prior years' settlement estimates or final settlements of prior periods had minimal impact on patient service revenue for the year ended June 30, 2022. Cost reports prior to 2018 have generally been settled.

Activity with respect to audits and reviews of the governmental programs in the healthcare industry has increased and is expected to increase in the future. No additional specific reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts, if any. Management believes that any adjustments from these increased audits and reviews will not have a material adverse impact on the consolidated financial statements. However, it is at least reasonably possible that management's estimate could change in the future, although the amount of any change cannot be determined.

## BALLAD HEALTH

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

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

Participation in the Medicare program requires compliance with significant rules and regulations. Failure to adhere to such could potentially result in fines, penalties or expulsion from the program. Management believes that adequate provision has been made for any identified adjustments, fines or penalties.

Patient service revenue, net of explicit price concessions, discounts and implicit price concessions, based on the type of service, is composed of the following for the years ended June 30:

	2023			2022
	<i>Inpatient</i>	<i>Outpatient</i>	<i>Total</i>	
Medicare	\$ 605,022	\$ 475,070	\$ 1,080,092	\$ 1,051,296
Medicaid	180,128	169,260	349,388	254,201
Commercial	262,929	486,826	749,755	769,525
Self-Pay	2,530	8,532	11,062	18,668
Other	42,589	39,097	81,686	81,120
	<u>\$ 1,093,198</u>	<u>\$ 1,178,785</u>	<u>\$ 2,271,983</u>	<u>\$ 2,174,810</u>

#### NOTE I--EMPLOYEE BENEFIT PLANS

Ballad sponsors multiple defined contribution retirement plans (the Plans) which cover substantially all employees. Ballad makes matching contributions to these plans to match employee contributions, up to 6% of the participants compensation as determined by the plan documents. Employees of certain subsidiaries are covered by other plans having various contribution policies, although such plans are not significant. The total expense related to the Plans for the years ended June 30, 2023 and 2022 was \$26,236 and \$27,707, respectively.

Norton Community Hospital and Subsidiaries maintain a frozen defined benefit pension plan and a frozen post-retirement employee benefit plan. At June 30, 2023 and 2022, the accrued unfunded pension liability was \$2,022 and \$2,583, respectively, and the accrued unfunded post-retirement liability was \$5,583 and \$5,420, respectively, both of which are included in other long-term liabilities in the Consolidated Balance Sheets, with the current portion included in accrued salaries, compensated absences, and amounts withheld. WHS also maintains a frozen defined benefit pension plan and a frozen post-retirement employee benefit plan with a funded asset of \$1,381 and \$389 and an accrued unfunded liability of \$797 and \$1,423 at June 30, 2023 and 2022, respectively, also included in other long-term liabilities.

Ballad sponsors a secured executive benefit program (SEBP) for certain key executives. Contributions to the plan by Ballad are based on an annual amount of funding necessary to produce a target benefit for the participants at their retirement dates, although Ballad does not guarantee any level of benefit will be achieved. Contributions to the plan during the years ended June 30, 2023 and 2022 were not significant. Other assets at June 30, 2023 and 2022 includes \$16,461 and \$16,391, respectively, related to Ballad's portion of the benefits which are recoverable upon the death of the participant. In addition, Ballad sponsors a Section 457(f) plan for certain key

## BALLAD HEALTH

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

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

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executives. Contributions to the Section 457(f) plan during the years ended June 30, 2023 and 2022 were not significant.

#### NOTE J--CONCENTRATION OF RISK

Ballad has locations primarily in upper East Tennessee and Southwest Virginia, a geographic concentration. Ballad grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements.

The patient responsibility related to charges for which the third-party has not yet paid is included within the third-party payer categories. The mix of receivables from patients and third-party payers based on charges at established rates is as follows as of June 30:

	<u>2023</u>	<u>2022</u>
Medicare	49%	48%
Medicaid	16%	17%
Commercial	27%	26%
Other	4%	3%
Self-Pay	4%	6%
	<u>100%</u>	<u>100%</u>

Approximately 96% and 94% of the consolidated total revenue, gains and support were related to the provision of healthcare services during the years ended June 30, 2023 and 2022, respectively.

The Hospital maintains bank accounts at various financial institutions covered by the Federal Deposit Insurance Corporation (FDIC). Ballad may maintain bank account balances in excess of the FDIC insured limit. Management believes the credit risk associated with these deposits is not significant.

Ballad routinely invests in investment vehicles as listed in Note C. The investment portfolio is managed by outside investment management companies. Investments in corporate and foreign bonds, municipal obligations, money market funds, equities and other vehicles that are held by safekeeping agents are not insured or guaranteed by the U.S. government and are subject to market risks.

#### NOTE K--INCOME TAXES

MSHA and its subsidiaries and WHS and its subsidiaries each file a consolidated federal tax return and separate state tax returns. As of June 30, 2023 and 2022, MSHA and WHS and their subsidiaries had net operating loss carryforwards for federal and state purposes of \$222,708 and \$227,563, respectively. The net operating loss carryforwards, which expire through 2042, may be

## BALLAD HEALTH

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

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

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offset against future taxable income to the extent permitted by the Internal Revenue Code and Tennessee Code Annotated.

Net deferred tax assets related to these carryforwards and other deferred tax assets have been substantially offset through valuation allowances equal to these amounts. Income taxes paid relate primarily to state taxes for certain subsidiaries and federal alternative minimum tax.

#### NOTE L--OTHER COMMITMENTS AND CONTINGENCIES

*Construction in Progress:* Construction in progress at June 30, 2023 represents costs incurred related to various hospital and medical office building facility renovations and additions and information technology infrastructure. Ballard has outstanding contracts and other commitments related to the completion of these projects, and the cost to complete these projects is estimated to be \$25,347 at June 30, 2023. Ballard does not expect any significant costs to be incurred for infrastructure improvements to assets held for resale.

*Lines of Credit:* At June 30, 2023, Ballard maintained four revolving lines of credit. One is a variable line of credit entered into by Mountain States Properties, Inc., which is not a member of Ballard's obligated group, with this line of credit being secured only by certain investments of Mountain States Properties, Inc. with available credit of \$30,000. Advances under this line of credit bear interest at variable rates. The rate in effect at June 30, 2023 for this line was 6.525%. The other lines have total available credit of \$105,000 and bear interest at variable rates based on the Secured Overnight Financing Rate. There were no borrowings under the lines of credit at June 30, 2023 and 2022.

#### NOTE M--LEASES

Ballad has entered into various non-cancelable leases with third parties for medical office space and medical equipment. The components of lease expense are as follows for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Finance lease costs:		
Amortization of right-of-use asset	\$ 828	\$ 1,220
Interest on lease liability	769	853
Operating lease cost	11,890	11,573
Short-term lease cost	5,796	5,914
	<u>\$ 19,283</u>	<u>\$ 19,560</u>
Other information:		
Right-of-use assets obtained for new finance leases	\$ -	\$ 291
Right-of-use assets obtained for new operating leases	\$ 9,182	\$ 7,637

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## BALLAD HEALTH

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

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

	<u>2023</u>	<u>2022</u>
Weighted average remaining lease term - finance leases	6.9 years	7.9 years
Weighted average remaining lease term - operating leases	9.3 years	4.7 years
Weighted average discount rate - finance leases	8.50%	8.40%
Weighted average discount rate - operating leases	2.47%	2.48%

The following is a schedule of future minimum lease payments under operating and finance lease agreements:

<u>Year Ending June 30,</u>	<u>Finance</u>	<u>Operating</u>
2024	\$ 1,654	\$ 9,544
2025	1,672	6,529
2026	1,670	3,731
2027	1,722	2,502
2028	1,722	960
Thereafter	3,380	2,549
Total lease payments	11,820	25,815
Less: Interest portion	(3,118)	(1,667)
Present value of lease obligations	8,702	24,148
Less: Current portion	(951)	(9,147)
Long-term lease obligations	\$ 7,751	\$ 15,001

#### NOTE N--UNCERTAINTY REGARDING THE IMPACT OF COVID-19

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. Beginning in March 2020, the COVID-19 outbreak severely restricted the level of economic activity around the world and caused significant volatility in financial markets. The healthcare industry continues to face financial pressure from general decreases in non-emergency patient volumes, cancellations, and delays of elective medical procedures, rising labor costs and shortages, and rising costs associated with obtaining personal protective equipment and other medical supplies, among other factors.

Government support to hospitals and other healthcare entities, including funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) are of significant value to hospital solvency. During the year ended June 30, 2022, Ballad received approximately \$51,442 of CARES Act Provider Relief Funding in both general and targeted distributions and American Rescue Plan funding. Ballad recognized revenues from CARES Act Provider Relief funding of

## **BALLAD HEALTH**

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

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

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\$1,687 and \$50,126 during the years ended June 30, 2023 and 2022, respectively, to offset lost revenue and COVID-19 related expenses based on the reporting guidelines published by the Department of Health and Human Services (HHS). Any amount of Provider Relief Funds received and not recognized as revenue have been recorded as deferred revenue in the accompanying Consolidated Balance Sheets until expended for the intended purposes or repaid. Ballad has reported on expenditures of Provider Relief Funding received during prior years in accordance with the reporting deadlines outlined by HHS.

The CARES Act also expanded the Medicare Accelerated and Advance Payment Program. Ballad received approximately \$200,000 in advanced payments under this program during the year ended June 30, 2020. Recoupment of accelerated payments is required beginning one year from the receipt date, at which time Medicare will withhold 25% of reimbursement for the next eleven months, then 50% of reimbursement for the following six months, until the liability is recouped. The remaining liability under this program of \$53,150 at June 30, 2022, on the Consolidated Balance Sheets was recouped during the year ended June 30, 2023.

Additionally, the CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The balance of deferred social security tax liabilities of approximately \$14,150 at June 30, 2022, included in accrued salaries, compensated absences, and amounts withheld in the Consolidated Balance Sheets, was repaid during the year ended June 30, 2023.

Ballad also received other federal grants and supplemental funding from other sources totaling approximately \$5,000 and \$10,800 and these amounts have also been recognized as COVID-19 relief funding revenue during the years ended June 30, 2023 and 2022, respectively.

The ultimate impact of COVID-19 on the financial position of Ballad is uncertain, and the status of future government funding is unknown at this time.

#### **NOTE O--FAIR VALUE MEASUREMENT**

Ballad has estimated the fair value of financial instruments using available market information as of June 30, 2023 and 2022, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts Ballad could realize in a current market exchange. The carrying value of substantially all financial instruments approximates fair value due to the nature or term of the instruments, except as described below.

Generally accepted accounting principles establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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## BALLAD HEALTH

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

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

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- *Level 1:* Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.
- *Level 2:* Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Investments in this category are valued primarily using the market valuation approach.
- *Level 3:* Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Investments in this category include values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting management assumptions.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

*Investment in Joint Ventures:* It is not practical to estimate the fair market value of the investments in joint ventures.

*Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities:* Estimates of reported and unreported professional liability claims, pension and post-retirement liabilities are discounted to approximate their estimated fair value. It is not practical to estimate the fair market value of other long-term liabilities.

*Long-Term Debt:* The estimated fair value of long-term debt at June 30, 2023 and 2022, is \$1,314,477 and \$1,373,823, respectively, and would be classified in Level 2 in the fair value hierarchy. The fair value of long-term debt is estimated based upon quotes obtained from brokers for bonds and discounted future cash flows using current market rates for other debt. For long-term debt with variable interest rates, the carrying value approximates fair value.

The following table sets forth, by level within the fair value hierarchy, the financial instruments measured at fair value on a recurring basis as of June 30:

## BALLAD HEALTH

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

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

	<i>Total</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>NAV</i>
<b>2023</b>					
Cash and cash equivalents	\$ 87,727	\$ 87,727	\$ -	\$ -	\$ -
U.S. Government and agency securities	127,220	-	127,220	-	-
Corporate and foreign bonds	125,884	-	125,884	-	-
Municipal obligations	2,285	-	2,285	-	-
U.S. equity securities	67,208	67,208	-	-	-
Mutual funds	955,533	955,533	-	-	-
Total assets within fair value hierarchy	1,365,857	1,110,468	255,389	-	-
Investments measured at net asset value:					
Alternative investments	131,219	-	-	-	131,219
Total investments at fair value	\$ 1,497,076	\$ 1,110,468	\$ 255,389	\$ -	\$ 131,219
Derivative agreements	\$ (6,789)	\$ -	\$ -	\$ (6,789)	\$ -
<b>2022</b>					
Cash and cash equivalents	\$ 76,475	\$ 76,475	\$ -	\$ -	\$ -
U.S. Government and agency securities	124,707	-	124,707	-	-
Corporate and foreign bonds	128,170	-	128,170	-	-
Municipal obligations	2,724	-	2,724	-	-
U.S. equity securities	67,975	67,975	-	-	-
Mutual funds	902,628	902,628	-	-	-
Total assets within fair value hierarchy	1,302,679	1,047,078	255,601	-	-
Investments measured at net asset value:					
Alternative investments	156,084	-	-	-	156,084
Total investments at fair value	\$ 1,458,763	\$ 1,047,078	\$ 255,601	\$ -	\$ 156,084
Derivative agreements	\$ (5,390)	\$ -	\$ -	\$ (5,390)	\$ -

Ballad assigns fair values for fixed maturity securities based on prices provided by investment managers and the custodian bank for Ballad. Using a variety of pricing sources to determine market valuations, Ballad assigns fair values of equity securities based on market quotations.

*Alternative Investments:* Ballad generally uses net asset value per unit without further adjustment as provided by external investment managers as the practical expedient estimate of the fair value of its alternative investments. Accordingly, such values may differ from values that would have been used had an active market for the investments existed. The real estate fund invests primarily in U.S. commercial real estate. Redemptions on the real estate fund are subject to the capital requirements of the fund manager. Private equity investments include investments in venture capital, growth equity, buyout, mezzanine, distressed debt, and reinsurance held in commingled vehicles in which Ballad is a limited partner or shareholder. Real estate partnerships invest in real estate, projects, or land held in commingled funds. Alternative investments measured using net asset value per unit are as follows at June 30:

## BALLAD HEALTH

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

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

	2023	2022	<i>Redemption Frequency</i>	<i>Redemption Notice Period</i>
Real estate fund	\$ 111,887	\$ 135,540	90 days	60 days
Private equity investments	18,411	19,173	Not eligible	Not eligible
Real estate partnerships	921	1,371	Not eligible	Not eligible
	<u>\$ 131,219</u>	<u>\$ 156,084</u>		

*Derivative Agreements:* The valuation of derivative agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. The analysis reflects the contractual terms of the agreement, including the period to maturity, and uses certain observable market-based inputs. The fair values of interest rate agreements are determined by netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates and the underlying notional amount. Ballad also incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty's nonperformance or credit risk in the fair value measurements. The CVA on the interest rate swap agreements at June 30, 2023 and 2022 resulted in an increase in the fair value of \$668 and \$729, respectively.

A certain portion of the inputs used to value the interest rate swap agreements, including the forward interest rate curves and market perceptions of the credit risk for Ballad used in the CVAs, are unobservable inputs available to a market participant. As a result, Ballad has classified the interest rate swap valuations in Level 3 of the fair value hierarchy. Due to the nature of these financial instruments, such estimates of fair value are subject to significant change in the near term.

The following tables provide a summary of changes in the fair value of the Level 3 financial assets and liabilities during the years ended June 30:

	<i>Derivatives, Net</i>
July 1, 2021	\$ (730)
Total unrealized/realized losses	(4,732)
Amortization of issuance costs	72
June 30, 2022	(5,390)
Total net unrealized/realized gains	(1,470)
Amortization of issuance costs	71
June 30, 2023	<u>\$ (6,789)</u>

## BALLAD HEALTH

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

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

#### NOTE P--OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

Ballad provides healthcare services to residents within its geographic location. Support services include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the organization's healthcare services. Management allocates expenses by function based on the primary purpose for the various departments. Expenses based upon the functional classification related to providing these services during the years ended June 30 are as follows:

	<i>Healthcare Services</i>	<i>Support Services</i>	<i>Total</i>
<b>2023</b>			
Salaries and benefits	\$ 942,276	\$ 234,089	\$ 1,176,365
Supplies and other	615,736	395,034	1,010,770
Provision for depreciation and amortization	70,366	74,064	144,430
Interest and taxes	38,841	17,094	55,935
	<u>\$ 1,667,219</u>	<u>\$ 720,281</u>	<u>\$ 2,387,500</u>
<b>2022</b>			
Salaries and benefits	\$ 930,280	\$ 208,611	\$ 1,138,891
Supplies and other	590,354	369,300	959,654
Provision for depreciation and amortization	70,637	75,750	146,387
Interest and taxes	30,195	12,574	42,769
	<u>\$ 1,621,466</u>	<u>\$ 666,235</u>	<u>\$ 2,287,701</u>

#### NOTE Q--AVAILABILITY AND LIQUIDITY

The following reflects financial assets as of June 30 reduced by amounts not available for general use due to contractual or donor-imposed restrictions or board designations:

	<u>2023</u>	<u>2022</u>
Financial assets	\$ 1,902,155	\$ 1,951,201
Less:		
Amounts restricted by donors	(33,758)	(44,308)
Amounts restricted under bond agreements or employee benefit plan arrangements	(249,637)	(291,199)
Board-designated funds	(2,600)	(8,725)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,616,160</u>	<u>\$ 1,606,969</u>

## **BALLAD HEALTH**

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

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

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Ballad receives amounts from donors which are required to be used for specific purposes (primarily operational in nature) or in specific timeframes and, therefore, are not available for general use. Additionally, Ballad has assets limited as to use which are restricted by contractual agreement to be utilized only for debt service or construction projects. Neither the restricted nor designated assets limited as to use are available for general expenditure within one year from the balance sheet date. Additionally, Ballad has designated cash for certain uses as disclosed in Note B. Ballad manages cash and investments through a formalized investment process, which includes evaluating cash needs for routine and non-routine activities.

#### **NOTE R--SUBSEQUENT EVENTS**

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. Management did not note any other material recognizable subsequent events that required recognition or disclosure in the June 30, 2023 consolidated financial statements.

**SECTION III**  
**INTERNAL CONTROL AND COMPLIANCE SECTION**



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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Ballad Health:

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 Ballad Health and its subsidiaries (Ballad) which comprise the consolidated balance sheet as of June 30, 2023, and the related statements of operations, 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 30, 2023.

***Report on Internal Control Over Financial Reporting***

In planning and performing our audit of the consolidated financial statements, we considered Ballad'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 Ballad's internal control. Accordingly, we do not express an opinion on the effectiveness of Ballad'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Ballad's consolidated 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a significant deficiency.

### ***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Ballard'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as item 2023-002.

### ***Ballad's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on Ballad's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Ballad's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

### ***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 Ballad's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ballad's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PYA, P.C.

Knoxville, Tennessee  
October 30, 2023,  
except with respect to the Opinion on  
the Schedule of Expenditures of Federal  
Awards, to which the date is March 19, 2024

# BALLAD HEALTH

## Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

<i>Assistance Listing Number</i>	<i>Award Number (Award Allocation)</i>	<i>Entity</i>	<i>Program Name (Program Period)</i>	<i>Grantor</i>	<i>Pass-Through Grantor Agency</i>	<i>From Direct Awards</i>	<i>From Pass-Through Awards</i>	<i>Total</i>
<b>FEDERAL AWARDS:</b>								
16.575	47650 2019-V2-GX-0043 (100% Federal)	CORP	Crime Victim Assistance (7/1/22 -6/30/23)	U.S. Department of Justice	Tennessee Department of Finance and Administration Office of Criminal Justice Programs	\$ -	\$ 190,070	\$ 190,070
<b>Total U.S. Department of Justice</b>						-	<b>190,070</b>	<b>190,070</b>
17.289	MI-35514-20-60-A47 (100% Federal)	CORP	Community Project Funding/Congressionally Directed Spending (9/30/20-9/30/23)	U.S. Department of Labor	First Tennessee Development District	-	129,181	129,181
<b>Total U.S. Department of Labor</b>						-	<b>129,181</b>	<b>129,181</b>
20.616	Z22THS207 (100% Federal)	CORP	National Priority Safety Programs (10/1/21-9/30/22)	U.S. Department of Transportation	Tennessee Department of Safety and Homeland Security	-	10,586	10,586
20.616	Z23THS198 (100% Federal)	JCMC	National Priority Safety Programs (10/1/22-9/30/23)	U.S. Department of Transportation	Tennessee Department of Safety and Homeland Security	-	35,975	35,975
20.616	69A3753130000405DVAL (100% Federal)	CORP	National Priority Safety Programs (10/1/22-9/30/23)	U.S. Department of Transportation	VA Highway Safety Office	-	14,771	14,771
<b>Total National Priority Safety Programs</b>						-	<b>61,332</b>	<b>61,332</b>
<b>Total Highway Safety Cluster</b>						-	<b>61,332</b>	<b>61,332</b>
<b>Total U.S. Department of Transportation</b>						-	<b>61,332</b>	<b>61,332</b>
21.027	None (100% Federal)	CORP	Coronavirus Relief Fund DMAS/VHHA Cares Act Funding (7/1/21-12/31/21)	U.S. Department of Treasury	Commonwealth of Virginia Department of Medical Assistance Services	-	1,118,485	1,118,485
<b>Total U.S. Department of Treasury</b>						-	<b>1,118,485</b>	<b>1,118,485</b>
23.002	PW-20060-IM (100% Federal)	CORP	Appalachian Area Development (1/1/21-12/31/23)	Appalachian Regional Commission	Commonwealth of Virginia New River/Mount Rogers Workforce Development Area Consortium Board	-	14,400	14,400
<b>Total Appalachian Regional Commission</b>						-	<b>14,400</b>	<b>14,400</b>

See notes to schedule of expenditures of federal awards and schedule of expenditures of state and other financial assistance.

# BALLAD HEALTH

## Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2023

<i>Assistance Listing Number</i>	<i>Award Number (Award Allocation)</i>	<i>Entity</i>	<i>Program Name (Program Period)</i>	<i>Grantor</i>	<i>Pass-Through Grantor Agency</i>	<i>From Direct Awards</i>	<i>From Pass-Through Awards</i>	<i>Total</i>
84.181A	Edison ID 60327 (100% Federal)	IPCH	Infants and Toddlers with Disabilities Special Education - Grants for Infants and Families 7/1/19-6/30/24	US Department of Education	State of Tennessee	-	1,253	1,253
84.181A	Edison ID 60327 (100% Federal)	JCMC	Infants and Toddlers with Disabilities Special Education - Grants for Infants and Families 7/1/19-6/30/24	US Department of Education	State of Tennessee	-	21,339	21,339
84.181A	Edison ID 48116 (100% Federal)	BRMC	Infants and Toddlers with Disabilities Special Education - Grants for Infants and Families 7/1/19-6/30/24	US Department of Education	State of Tennessee	-	927	927
84.181A	Edison ID 60327 (100% Federal)	GCHE	Infants and Toddlers with Disabilities Special Education - Grants for Infants and Families 7/1/19-6/30/24	US Department of Education	State of Tennessee	-	10,769	10,769
<b>Total U.S. Department of Education</b>						-	<b>34,288</b>	<b>34,288</b>
93.155	H3L42252 (100% Federal)	DCH	ARP COVID-19 Testing & Mitigation SHIP (1/1/21-12/31/23)	U.S. Department of Health and Human Services	Virginia Department of Health	-	152,155	152,155
93.155	H3L42252 (100% Federal)	LPH	ARP COVID-19 Testing & Mitigation SHIP (1/1/21-12/31/23)	U.S. Department of Health and Human Services	Virginia Department of Health	-	152,155	152,155
<b>Total Rural Health Research Centers</b>						-	<b>304,310</b>	<b>304,310</b>
93.301	H3HRH00029 (100% Federal)	RCH	Small Rural Hospital Improvement Program (6/1/22-5/31/23)	U.S. Department of Health and Human Services	Virginia Department of Health	-	10,103	10,103
93.301	H3HRH00029 (100% Federal)	SCCH	Small Rural Hospital Improvement Program (6/1/22-5/31/23)	U.S. Department of Health and Human Services	Virginia Department of Health	-	10,103	10,103
93.301	H3HRH00029 (100% Federal)	DCH	Small Rural Hospital Improvement Program (6/1/22-5/31/23)	U.S. Department of Health and Human Services	Virginia Department of Health	-	10,103	10,103

See notes to schedule of expenditures of federal awards and schedule of expenditures of state and other financial assistance.

# BALLAD HEALTH

## Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2023

<i>Assistance Listing Number</i>	<i>Award Number (Award Allocation)</i>	<i>Entity</i>	<i>Program Name (Program Period)</i>	<i>Grantor</i>	<i>Pass-Through Grantor Agency</i>	<i>From Direct Awards</i>	<i>From Pass-Through Awards</i>	<i>Total</i>
93.301	H3HRH00029 (100% Federal)	LCCH	Small Rural Hospital Improvement Program (6/1/22-5/31/23)	U.S. Department of Health and Human Services	Virginia Department of Health	-	10,103	10,103
<b>Total Small Rural Hospital Improvement Grant Program</b>						-	<b>40,412</b>	<b>40,412</b>
93.558	1801TNTANF (100% Federal)	CORP	Temporary Assistance for Needy Families Tennessee Opportunity Pilot Initiative (TOPI) (11/1/22-10/31/25)	U.S. Department of Health and Human Services	Tennessee Department of Human Services	-	153,310	153,310
93.558	202G996115 (100% Federal)	CORP	Temporary Assistance for Needy Families (10/1/20-9/30/22)	U.S. Department of Health and Human Services	Tennessee Department of Human Services	-	507,697	507,697
<b>Total Temporary Assistance for Needy Families</b>						-	<b>661,007</b>	<b>661,007</b>
93.575	2101TNCSC6 (100% Federal)	JCMC	Child Care and Development Block Grant (10/1/22-9/30/23)	U.S. Department of Health and Human Services	Tennessee Department of Human Services Coronavirus State and Local Fiscal Recovery Funds	-	42,000	42,000
93.575	2101TNCSC6 (100% Federal)	SSH	Child Care and Development Block Grant (10/1/22-9/30/23)	U.S. Department of Health and Human Services	Tennessee Department of Human Services Coronavirus State and Local Fiscal Recovery Funds	-	14,000	14,000
<b>Total Child Care and Development Block Grant</b>						-	<b>56,000</b>	<b>56,000</b>
<b>Total CCDF Cluster</b>						-	<b>56,000</b>	<b>56,000</b>
93.788	H79TI085738 (100% Federal)	CORP	Opioid STR (2/1/23-9/29/23)	U.S. Department of Health and Human Services	Tennessee Department of Mental Health and Substance Abuse Services	-	137,517	137,517
93.788	H79TI083307 (100% Federal)	CORP	Opioid STR (9/30/21-9/29/22)	U.S. Department of Health and Human Services	Tennessee Department of Mental Health and Substance Abuse Services	-	279,249	279,249

See notes to schedule of expenditures of federal awards and schedule of expenditures of state and other financial assistance.

## BALLAD HEALTH

### Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2023

<i>Assistance Listing Number</i>	<i>Award Number (Award Allocation)</i>	<i>Entity</i>	<i>Program Name (Program Period)</i>	<i>Grantor</i>	<i>Pass-Through Grantor Agency</i>	<i>From Direct Awards</i>	<i>From Pass-Through Awards</i>	<i>Total</i>
93.788	H79TI085738 (100% Federal)	OMR	Opioid STR (2/1/23-9/29/23)	U.S. Department of Health and Human Services	Tennessee Department of Mental Health and Substance Abuse Services	-	255,283	255,283
93.788	H79TI083307 (100% Federal)	CORP	Opioid STR (9/30/22-9/29/23)	U.S. Department of Health and Human Services	Tennessee Department of Mental Health and Substance Abuse Services	-	561,699	561,699
93.788	H79TI083307 (100% Federal)	OMR	Opioid STR (9/30/22-9/29/23)	U.S. Department of Health and Human Services	Tennessee Department of Mental Health and Substance Abuse Services	-	1,032,404	1,032,404
<b>Total Opioid STR:</b>						-	<b>2,266,152</b>	<b>2,266,152</b>
93.889	U3REP190581 (100% Federal)	CORP	National Bioterrorism Hospital Preparedness Program (3/29/20-6/30/21)	U.S. Department of Health and Human Services	Tennessee Department of Health	-	16,066	16,066
93.889	34307-31023 (100% Federal)	CORP	National Bioterrorism Hospital Preparedness Program NE TN Healthcare Coalition - Regional Medical Call Center (RMCC) (9/1/22-6/30/23)	U.S. Department of Health and Human Services	Tennessee Department of Health	-	35,892	35,892
93.889	U3REP200640 (100% Federal)	DCH	National Bioterrorism Hospital Preparedness Program (4/10/20-4/10/25)	U.S. Department of Health and Human Services	Virginia Hospital & Healthcare Association	-	6,911	6,911
<b>Total National Bioterrorism Hospital Preparedness Program:</b>						-	<b>58,869</b>	<b>58,869</b>
93.898	NU58DP006307 (100% Federal)	CORP	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations (7/1/22-6/30/23)	U.S. Department of Health and Human Services	Tennessee Department of Health	-	28,006	28,006
93.898	34347-69823 (100% Federal)	JCMC	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations (7/1/22-6/30/23)	U.S. Department of Health and Human Services	Tennessee Department of Health	-	15,275	15,275
<b>Total Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations:</b>						-	<b>43,281</b>	<b>43,281</b>

See notes to schedule of expenditures of federal awards and schedule of expenditures of state and other financial assistance.

**BALLAD HEALTH**

*Schedule of Expenditures of Federal Awards - Continued*

*Year Ended June 30, 2023*

<i>Assistance Listing Number</i>	<i>Award Number (Award Allocation)</i>	<i>Entity</i>	<i>Program Name (Program Period)</i>	<i>Grantor</i>	<i>Pass-Through Grantor Agency</i>	<i>From Direct Awards</i>	<i>From Pass-Through Awards</i>	<i>Total</i>
93.912	1 G29RH43454-01-00 (100% Federal)	SCCH	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement (7/1/21-6/30/22)	U.S. Department of Health and Human Services	N/A	4,498	-	4,498
93.912	GA1RH33526-01-03 (100% Federal)	CORP	Rural Communities Opioid Response - Implementation (RCORP) (9/1/19 - 8/31/22)	U.S. Department of Health and Human Services	N/A	55,081	-	55,081
93.912	GA1RH33526-02-01 (100% Federal)	CORP	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement (9/1/22-8/31/23)	U.S. Department of Health and Human Services	N/A	165,400	-	165,400
93.912	1 H7NRH42567-01-00 (100% Federal)	HCMH	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement (9/1/21-8/31/24)	U.S. Department of Health and Human Services	N/A	175,943	-	175,943
93.912	6 G29RH42758-01-01 (100% Federal)	HCH	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement (7/1/21-6/30/22)	U.S. Department of Health and Human Services	N/A	26,580	-	26,580
93.912	1 G29RH43454-01-00 (100% Federal)	SCCH	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement (7/1/21-6/30/22)	U.S. Department of Health and Human Services	N/A	5,937	-	5,937
93.912	1 G29RH43063-01-00 (100% Federal)	CORP	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement (7/1/21-6/30/22)	U.S. Department of Health and Human Services	N/A	71,368	-	71,368
<b>Total Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement:</b>						<b>504,807</b>	<b>-</b>	<b>504,807</b>

*See notes to schedule of expenditures of federal awards and schedule of expenditures of state and other financial assistance.*

# BALLAD HEALTH

## Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2023

<i>Assistance Listing Number</i>	<i>Award Number (Award Allocation)</i>	<i>Entity</i>	<i>Program Name (Program Period)</i>	<i>Grantor</i>	<i>Pass-Through Grantor Agency</i>	<i>From Direct Awards</i>	<i>From Pass-Through Awards</i>	<i>Total</i>
<b>Medicaid Cluster:</b>								
93.778	05-1505TN5MAP 45982 (50% Federal)	JCMC	Medical Assistance Program: High Risk Perinatal (7/1/22-6/30/23)	U.S. Department of Health and Human Services	Tennessee Department of Finance and Administration	-	290,750	290,750
<b>Total Medicaid Cluster:</b>						-	<b>290,750</b>	<b>290,750</b>
93.074	NU90TP921883 (100% Federal)	CORP	Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements (7/1/22-6/30/23)	U.S. Department of Health and Human Services	Tennessee Department of Health	-	250,000	250,000
93.323	34349-04123 (100% Federal)	WH	Long Term Care Facility (LTCF) Reimbursement of COVID-19 Supplies for Social Vulnerability Index (SVI) Counties (12/5/22-7/31/24)	U.S. Department of Health and Human Services	Tennessee Department of Health	-	6,995	6,995
93.297	5 TP1AH000215-02-00 (100% Federal)	CORP	Optimally Changing the Map for Teen Pregnancy Prevention SexEdVA: Appalachian Replication (2/1/22-5/31/23)	U.S. Department of Health and Human Services	James Madison University	-	39,827	39,827
93.391	22-102-1-S10.1 (100% Federal)	CORP	The Tennessee COVID-19 Health Disparities Initiative (6/1/22-5/31/23)	U.S. Department of Health and Human Services	East Tennessee State University	-	147,049	147,049
93.495	NU58DP007034 (100% Federal)	CORP	COVID-19, Community Health Workers for Public Health Response and Resilient Communities (8/31/21-8/30/22)	U.S. Department of Health and Human Services	Virginia Hospital Research and Education Foundation dba VHHA Foundation	-	116,922	116,922

See notes to schedule of expenditures of federal awards and schedule of expenditures of state and other financial assistance.



# BALLAD HEALTH

## Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2023

<i>Assistance Listing Number</i>	<i>Award Number (Award Allocation)</i>	<i>Entity</i>	<i>Program Name (Program Period)</i>	<i>Grantor</i>	<i>Pass-Through Grantor Agency</i>	<i>From Direct Awards</i>	<i>From Pass-Through Awards</i>	<i>Total</i>
93.498	None (100% Federal)	Various	COVID-19, Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution (1/1/20-6/30/23)	U.S. Department of Health and Human Services	N/A	51,442,449	-	51,442,449
93.650	1P1CMS331563-05-02 (100% Federal)	CORP	Accountable Health Communities (5/1/21-4/30/23)	U.S. Department of Health and Human Services	Centers for Medicare and Medicaid Services	-	138,956	138,956
93.697	None (100% Federal)	Various	COVID-19, Testing and Mitigation for Rural Health Clinics (1/1/21-12/31/22)	U.S. Department of Health and Human Services	N/A	431,045	-	431,045
<b>Total U.S. Department of Health and Human Services</b>						<b>52,378,301</b>	<b>4,420,530</b>	<b>56,798,831</b>
97.008	EMW-2021-UA-00048 (100% Federal)	BRMC	Non-profit Security Grant Program (9/1/21-4/30/24)	U.S. Department of Homeland Security	Department of Military Tennessee Emergency Management Agency	-	27,775	27,775
97.008	EMW-2021-UA-00048 (100% Federal)	IPCH	Non-profit Security Grant Program (9/1/21-4/30/24)	U.S. Department of Homeland Security	Department of Military Tennessee Emergency Management Agency	-	38,445	38,445
<b>Total Non-Profit Security Program</b>						<b>-</b>	<b>66,220</b>	<b>66,220</b>
97.036	FEMA-4514-DR-TN (100% Federal)	Various	COVID-19, Disaster Grants - Public Assistance (Presidentially Declared Disasters) (1/20/20-1/19/24)	U.S. Department of Homeland Security	Department of Military Tennessee Emergency Management Agency	-	3,228,326	3,228,326
<b>Total U.S. Department of Homeland Security</b>						<b>-</b>	<b>3,294,546</b>	<b>3,294,546</b>
<b>TOTAL FEDERAL AWARDS</b>						<b>\$ 52,378,301</b>	<b>\$ 9,262,832</b>	<b>\$ 61,641,133</b>

See notes to schedule of expenditures of federal awards and schedule of expenditures of state and other financial assistance.

**BALLAD HEALTH**

*Schedule of Expenditures of State and Other Financial Assistance*

*Year Ended June 30, 2023*

<i>Award Number (Award Allocation)</i>	<i>Entity</i>	<i>Program Name (Program Period)</i>	<i>Grantor</i>	<i>Pass-Through Grantor Agency</i>	<i>Beginning Balance</i>	<i>Receipts</i>	<i>Passed through to Subrecipients</i>	<i>Amounts Earned by Expenditures</i>	<i>Ending Balance</i>
55359 (100% State)	WR	FY 18 Inpatient Psych Treatment of Uninsured Woodridge 7/1/2018 - 6/30/2022	Tennessee Department of Mental Health and Substance Abuse Services	N/A	\$ 144,126	\$ (207,870)	\$ -	\$ 63,744	\$ -
74041 (100% State)	WR	Inpatient Uninsured Psychiatric Treatment Woodridge 7/1/2022 - 6/30/2023	Tennessee Department of Mental Health and Substance Abuse Services	N/A	\$ -	\$ (1,784,588)	\$ -	\$ 3,499,218	\$ 1,714,630
2022-TN-COVID_VISIT- 15 (100% State)	CORP	Tennessee Nursing Home Civil Monetary Penalty (CMP) Reinvestment Program 4/19/22-12/31/2022	Tennessee Department of Health	N/A	2,998	(2,998)	-	-	-
None (100% State)	Various	Child Safety Funds 1/2/22-12/31/22 1/2/23-12/31/23	Tennessee Department of Health	N/A	(5,665)	(20,758)	-	26,176	(247)
05-1505TN5MAP 45982 (50% State)	JCMC	Medical Assistance Program: High Risk Perinatal 7/1/2021-6/30/2022	U.S. Department of Health and Human Services	Tennessee Department of Finance and Administration	42,659	(42,659)	-	-	-
05-1505TN5MAP 45982 (50% State)	JCMC	Medical Assistance Program: High Risk Perinatal 7/1/2022-6/30/2023	U.S. Department of Health and Human Services	Tennessee Department of Finance and Administration	-	(256,602)	-	290,750	34,148
<b>TOTAL STATE AWARDS</b>					<b>\$ 184,118</b>	<b>\$ (2,315,475)</b>	<b>\$ -</b>	<b>\$ 3,879,888</b>	<b>\$ 1,748,531</b>

*See notes to schedule of expenditures of federal awards and schedule of expenditures of state and other financial assistance.*

## **BALLAD HEALTH**

### ***Notes to Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State and Other Financial Assistance***

***Year Ended June 30, 2023***

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#### **NOTE A--BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards and schedule of expenditures of state and other financial assistance include the grant activity of Ballard Health (Ballad), as discussed in Note A to the consolidated financial statements, and are presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State of Tennessee Comptroller of the Treasury, respectively. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

#### **NOTE B--SIGNIFICANT ACCOUNTING POLICIES**

*De Minimis Indirect Cost Rate:* Ballad has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

#### **NOTE C--CONTINGENCIES**

Ballad's federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures, and affect Ballad's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although Ballad expects such amounts, if any, to be immaterial.

#### **NOTE D--PROVIDER RELIEF FUNDS AND AMERICAN RESCUE PLAN RURAL DISTRIBUTIONS**

As discussed in Note N to the accompanying consolidated financial statements, Ballad received a significant amount of funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution programs. Expenditures under these programs are subject to the Uniform Guidance. In accordance with the 2023 Compliance Supplement, PRF and ARP amounts that were received during the period July 1, 2021 to June 30, 2022 that were expended by June 30, 2023 are the only amounts included in the accompanying Schedule of Expenditure of Federal Awards.

**BALLAD HEALTH**

*Schedule of Findings and Questioned Costs*

*Year Ended June 30, 2023*

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**Section I - Summary of Auditor's Results**

**CONSOLIDATED FINANCIAL STATEMENTS**

The auditor's report expressed an unmodified opinion on the consolidated financial statements of Ballad Health.

**Internal control over financial reporting:**

Material weakness(es) identified? Yes [ ] No [X]  
Significant deficiency identified? Yes [X] None Reported [ ]  
Noncompliance material to consolidated financial statements noted? Yes [ ] No [X]

**FEDERAL AWARDS**

**Internal control over major federal programs:**

Material weakness(es) identified? Yes [ ] No [X]  
Significant deficiency identified? Yes [X] None Reported [ ]

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes [X] No [ ]

**Identification of Major Programs:**

***Assistance Listing***  
***Number(s)***

***Name of Federal Program or Cluster***

97.036	U.S. Department of Homeland Security - Disaster Grants - Public Assistance (Presidentially Declared Disasters)
93.498	U.S. Department of Health and Human Services - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
93.788	U.S. Department of Health and Human Services - Opioid STR

Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,849,234

Auditee qualified as low-risk auditee? Yes [ ] No [X]

## BALLAD HEALTH

### *Schedule of Findings and Questioned Costs - Continued*

*Year Ended June 30, 2023*

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#### **Section II - Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the consolidated financial statements for which *Government Auditing Standards* require reporting.

#### **2023-001 Defined-Benefit Employee Benefit Plan Liability and Asset Reconciliation**

**Criteria:** Ballad maintains various defined-benefit employee benefit plans. Management has engaged an external actuarial firm to calculate the net asset or liability balance at year-end for each defined-benefit employee benefit plan. Management uses these net asset or liability calculations to record year-end balances of assets and liabilities associated with defined-benefit employee benefit plans.

**Condition:** Certain balance sheet accounts were misstated due to errors in recording journal entries during year-end close to adjust balances for assets and liabilities associated with defined-benefit employee benefit plans to the net asset or liability balances as determined by an actuary.

**Cause of Condition:** Employees responsible for recording these entries had not received training on interpretations of actuary reports and in recording journal entries based on calculations obtained from actuary reports. Additionally, review processes during year-end close failed to identify these errors.

**Effect:** This resulted in management recording audit adjustments. The effects of the adjustments are included in the consolidated financial statements.

**Recommendation:** We recommend providing training to the accounting personnel responsible for recording journal entries for assets and liabilities associated with defined-benefit employee benefit plans and enhancing review procedures for these asset and liability accounts during year-end close.

**Views of Responsible Officials and Planned Corrective Actions:** Ballad Health agreed to the issue detected and made a correcting entry. Management is also providing additional instruction and review with the balance sheet reconciliation process. As part of additional review at year end, pension accounts have been added to controller review at the specific account levels. Further education was provided to the accountant preparing the entries to reconcile to reports and supporting documentation required for reconciliation purposes. Additional education has been provided to all staff as part of the reconciliation and review process.

## **BALLAD HEALTH**

### *Schedule of Findings and Questioned Costs - Continued*

*Year Ended June 30, 2023*

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#### **Section III - Federal Award Findings**

This section identifies the audit findings required to be reported by 2 CFR 200 Section 516(a) of the Uniform Guidance (for example, significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

#### **2023-002 Preparation of Schedule of Expenditures of Federal Awards**

**Identification of the Federal Programs:** Assistance Listing Number (ALN) - 93.788 Opioid STR, from the U.S. Department of Health and Human Services passed through from the State of Tennessee Department of Mental Health and Substance Abuse Services, and ALN - 97.036 U.S. Department of Homeland Security - Disaster Grants - Public Assistance (Presidentially Declared Disasters).

**Criteria:** 2 CFR 200.510 of the Uniform Guidance indicates that the auditee must prepare a schedule of expenditures of federal awards (SEFA) for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with 200.502, Basis for Determining Federal Awards Expended. Per 2 CFR 200.502, the determination of when a federal award is expended should be based on when the activity related to the federal award occurs. In addition, 2 CFR Part 200.303 requires the entity to establish and maintain effective internal controls over federal awards that provides reasonable assurance of compliance with federal statutes, regulations, and the terms and conditions of federal awards.

**Condition:** Ballard did not have adequate controls in place to ensure the SEFA was accurate. The initial draft of the SEFA included expenditures for ALN - 93.788 that were accidentally "double-counted" in the SEFA. This resulted in expenditures on the SEFA being overstated by \$188,242 for this program. The initial draft of the SEFA also included expenditures for ALN - 97.036 that were amounts required to be returned to the grantor agency and not expenditures. This resulted in expenditures on the SEFA being overstated by \$312,092 for this program. Revisions to the SEFA were required to accurately present the federal expenditures for the period.

**Cause of Condition:** Ballard did not perform an adequate review of the prepared SEFA and did not implement procedures to ensure the amounts recorded were complete and accurate in relation to the consolidated financial statements.

**Effect:** If not corrected, inaccurate expenditures would have been reported to the federal government. In addition, the errors could result in improper selection of major program(s) for the Uniform Guidance audit.

**Context:** There are no questioned costs associated with this finding.

## BALLAD HEALTH

### *Schedule of Findings and Questioned Costs - Continued*

*Year Ended June 30, 2023*

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**Auditor's Recommendation:** Ballard should establish formal procedures for determination of federal expenditures for inclusion in the SEFA. We further recommend training for those involved in the preparation and review of the SEFA to ensure that they are fully aware of the requirements related to SEFA preparation.

**Views of Responsible Officials and Planned Corrective Actions:** Ballard Health will utilize technology efficiencies within upgraded accounting system to supplement reporting. Additionally, a resource will be added directly responsible for grant accounting. The SEFA will also be reviewed frequently to ensure accuracy.

**BALLAD HEALTH**

*Summary Schedule of Prior Audit Findings*

*Year Ended June 30, 2023*

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There were no prior audit findings.



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Ballad Health:

***Report on Compliance for Each Major Federal Program***

***Opinion on Each Major Federal Program***

We have audited Ballad Health and its subsidiaries' (Ballad) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of Ballad's major federal programs for the year ended June 30, 2023. Ballad'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, Ballad complied, in all material respects, with the types of 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, 2023.

***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 Ballad 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 Ballad'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 Ballad's federal programs.

### ***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 Ballad'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 Ballad'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 Ballad'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 Ballad'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 Ballad'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.

### ***Other Matter***

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2023-002. Our opinion on each major federal program is not modified with respect to this matter. *Government Auditing Standards*

requires the auditor to perform limited procedures on Ballard's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Ballard'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.

### ***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 a deficiency in internal control over compliance that we consider to be a significant deficiency.

*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 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-002 to be a significant deficiency.

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.

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 requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PYA, P.C.

Knoxville, Tennessee  
March 19, 2024

March 28, 2024

Pershing Yoakley and Associates, P.C.  
One Cherokee Mills  
2220 Sutherland Avenue  
Knoxville, TN 37919

**Re: Significant Deficiencies – Management Corrective Action Plan  
Ballad Health  
Fiscal Year Ended 6/30/2023**

2023-001 Defined-Benefit Employee Benefit Plan Liability and Asset Reconciliation

**Criteria:** Ballad maintains various defined-benefit employee benefit plans. Management has engaged an external actuarial firm to calculate the net asset or liability balance at year-end for each defined-benefit employee benefit plan. Management uses these net asset or liability calculations to record year-end balances of assets and liabilities associated with defined-benefit employee benefit plans.

**Condition:** Certain balance sheet accounts were misstated due to errors in recording journal entries during year-end close to adjust balances for assets and liabilities associated with defined-benefit employee benefit plans to the net asset or liability balances as determined by an actuary.

**Cause of Condition:** Employees responsible for recording these entries had not received training on interpretations of actuary reports and in recording journal entries based on calculations obtained from actuary reports. Additionally, review processes during year-end close failed to identify these errors.

**Recommendation:** We recommend providing training to the accounting personnel responsible for recording journal entries for assets and liabilities associated with defined-benefit employee benefit plans and enhancing review procedures for these asset and liability accounts during year-end close.

**Views of Responsible Officials and Planned Corrective Actions:** *Ballad Health agreed to the issue detected and made a correcting entry. Management is also providing additional instruction and review with the balance sheet reconciliation process. As part of additional review at year end, pension accounts have been added to controller review at the specific account levels. Further education was provided to the accountant preparing the entries to reconcile to reports and supporting documentation required for reconciliation purposes. Additional education has been provided to all staff as part of the reconciliation and review process.*

**Names of Contact Persons Responsible for Corrective Action Plan:** Greg Wilgocki, SVP Accounting;  
Tom Young, System Controller

**Completion Date:** December 31, 2023

**Gregory  
Wilgocki**

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Wilgocki  
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Greg Wilgocki  
SVP/ Accounting

March 28, 2024

Pershing Yoakley and Associates, P.C.  
One Cherokee Mills  
2220 Sutherland Avenue  
Knoxville, TN 37919

**Re: Significant Deficiencies – Management Corrective Action Plan  
Ballad Health  
Fiscal Year Ended 6/30/2023**

2023-002 Preparation of Schedule of Expenditures of Federal Awards

**Criteria:** 2 CFR 200.510 of the Uniform Guidance indicates that the auditee must prepare a schedule of expenditures of federal awards (SEFA) for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with 200.502, Basis for Determining Federal Awards Expended. Per 2 CFR 200.502, the determination of when a federal award is expended should be based on when the activity related to the federal award occurs. In addition, 2 CFR Part 200.303 requires the program establish and maintain effective internal controls over federal awards that provides reasonable assurance of compliance with federal statutes, regulations, and the terms and conditions of federal awards.

**Condition:** Ballad did not have adequate controls in place to ensure the SEFA was accurate. The initial draft of the SEFA included expenditures for Assistance Listing - 93.788 that were accidentally "double-counted" in the SEFA. This resulted in expenditures on the SEFA being overstated by \$188,242 for this program. The initial draft of the SEFA also included expenditures for Assistance Listing - 97.036 that were amounts required to be returned to the grantor agency and not expenditures. This resulted in expenditures on the SEFA being overstated by \$312,092 for this program. Revisions to the SEFA were required to accurately present the federal expenditures for the period.

**Auditor's Recommendation:** Ballad should establish formal procedures for determination of federal expenditures for inclusion in the SEFA. We further recommend training for those involved in the preparation and review of the SEFA to ensure that they are fully aware of the requirements related to SEFA preparation.

**Views of Responsible Officials and Planned Corrective Actions:** *Ballad Health will utilize technology efficiencies within upgraded accounting system to supplement reporting. Additionally, a resource will be added directly responsible for grant accounting. The SEFA will also be reviewed frequently to ensure accuracy.*

**Names of Contact Persons Responsible for Corrective Action Plan:** Greg Wilgocki, SVP Accounting;  
Tom Young, System Controller

**Completion Date:** June 30, 2024

**Gregory Wilgocki**  
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SVP/ Accounting