



MULTICARE HEALTH SYSTEM

Consolidated Financial Statements

December 31, 2024 and 2023

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
MultiCare Health System:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of MultiCare Health System (the Company)(a Washington nonprofit corporation), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedule consolidating balance sheet information and supplemental schedule consolidating statement of operations are presented for purposes of additional analysis and are not required parts of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Seattle, Washington
March 26, 2025

MULTICARE HEALTH SYSTEM

Consolidated Balance Sheets

December 31, 2024 and 2023

(In thousands)

Assets	2024	2023
Current assets:		
Cash and cash equivalents	\$ 641,644	512,076
Accounts receivable	823,807	659,925
Supplies inventory	91,570	70,636
Other current assets, net	<u>268,932</u>	<u>244,617</u>
Total current assets	1,825,953	1,487,254
Donor restricted assets held for long-term purposes	168,174	151,563
Investments	2,269,033	1,996,970
Property, plant, and equipment, net	2,927,783	2,469,467
Right-of-use operating lease asset, net	268,215	235,679
Right-of-use financing lease asset, net	18,867	18,003
Goodwill and intangible assets, net	260,581	259,830
Other assets, net	<u>471,736</u>	<u>401,519</u>
Total assets	\$ <u>8,210,342</u>	<u>7,020,285</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 467,526	409,309
Accrued compensation and related liabilities	542,659	420,730
Accrued interest payable	36,469	27,333
Line of credit	63,000	62,935
Current portion of right-of-use operating lease liability	59,991	37,412
Current portion of right-of-use financing lease liability	7,239	6,443
Current portion of long-term debt	<u>27,863</u>	<u>22,411</u>
Total current liabilities	1,204,747	986,573
Right-of-use operating lease liability, net of current portion	224,023	208,545
Right-of-use financing lease liability, net of current portion	12,701	12,504
Long-term debt, net of current portion	2,213,831	1,961,949
Other liabilities, net	<u>395,980</u>	<u>253,998</u>
Total liabilities	<u>4,051,282</u>	<u>3,423,569</u>
Commitments and contingencies (note 16)		
Net assets:		
Controlling interest	3,915,842	3,301,130
Noncontrolling interest	<u>18,110</u>	<u>34,925</u>
Without donor restrictions	3,933,952	3,336,055
With donor restrictions	<u>225,108</u>	<u>260,661</u>
Total net assets	<u>4,159,060</u>	<u>3,596,716</u>
Total liabilities and net assets	\$ <u>8,210,342</u>	<u>7,020,285</u>

See accompanying notes to consolidated financial statements.

MULTICARE HEALTH SYSTEM
Consolidated Statements of Operations
Years ended December 31, 2024 and 2023
(In thousands)

	<u>2024</u>	<u>2023</u>
Revenues, gains, and other support without donor restrictions:		
Patient service revenue	\$ 5,496,878	4,521,328
Other operating revenue	355,174	417,619
Net assets released from restrictions for operations	<u>7,194</u>	<u>10,068</u>
Total revenues, gains, and other support without donor restrictions	<u>5,859,246</u>	<u>4,949,015</u>
Expenses:		
Salaries and wages	2,852,014	2,518,778
Employee benefits	411,175	381,067
Supplies	970,671	807,705
Purchased services	561,003	486,031
Professional fees	257,853	198,689
Depreciation and amortization	171,195	163,267
Interest	83,069	81,941
Other	<u>668,779</u>	<u>500,008</u>
Total expenses	<u>5,975,759</u>	<u>5,137,486</u>
Deficit of revenues over expenses from operations	<u>(116,513)</u>	<u>(188,471)</u>
Other income:		
Investment income	210,852	282,866
Gain on interest rate swaps, net	19,114	14,410
Inherent contribution	395,923	293,012
Other income, net	<u>4,831</u>	<u>9,382</u>
Total other income, net	<u>630,720</u>	<u>599,670</u>
Excess of revenues over expenses	<u>\$ 514,207</u>	<u>411,199</u>

See accompanying notes to consolidated financial statements.

MULTICARE HEALTH SYSTEM

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2024 and 2023

(In thousands)

	Without donor restrictions		With donor restrictions	Total net assets
	Controlling interests	Noncontrolling interests		
Balance, December 31, 2022	\$ 2,930,546	34,471	175,513	3,140,530
Excess of revenues over expenses	349,718	61,481	—	411,199
Changes in pension assets	(158)	—	—	(158)
Changes from noncontrolling interest	—	(61,027)	—	(61,027)
Contributions and other	20,582	—	65,863	86,445
Net assets assumed in affiliation	—	—	19,657	19,657
Net assets released from restriction for capital acquisitions	442	—	(442)	—
Net assets released from restriction for operations	—	—	(10,068)	(10,068)
Gain on investments	—	—	12,095	12,095
Decrease in assets held in trust by others	—	—	(1,957)	(1,957)
Change in net assets	<u>370,584</u>	<u>454</u>	<u>85,148</u>	<u>456,186</u>
Balance, December 31, 2023	<u>3,301,130</u>	<u>34,925</u>	<u>260,661</u>	<u>3,596,716</u>
Excess of revenues over expenses	512,663	1,544	—	514,207
Changes in pension assets	(4,015)	—	—	(4,015)
Changes from noncontrolling interest	—	(18,359)	—	(18,359)
Contributions	—	—	33,250	33,250
Other activities and transfers	57,398	—	(50,230)	7,168
Net assets assumed in affiliation	—	—	18,325	18,325
Net assets released from restriction for capital acquisitions	48,666	—	(48,666)	—
Net assets released from restriction for operations	—	—	(7,194)	(7,194)
Gain on investments	—	—	19,694	19,694
Decrease in assets held in trust by others	—	—	(732)	(732)
Change in net assets	<u>614,712</u>	<u>(16,815)</u>	<u>(35,553)</u>	<u>562,344</u>
Balance, December 31, 2024	\$ <u>3,915,842</u>	<u>18,110</u>	<u>225,108</u>	<u>4,159,060</u>

See accompanying notes to consolidated financial statements.

MULTICARE HEALTH SYSTEM
Consolidated Statements of Cash Flows
Years ended December 31, 2024 and 2023
(In thousands)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Increase in net assets	\$ 562,344	456,186
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	171,195	163,267
Amortization of bond premiums, discounts, and issuance costs	(2,270)	(4,120)
Net realized and unrealized gains on investments	(152,961)	(222,484)
Change in fair value of interest rate swap	21,729	(5,970)
Loss (gain) on disposal of assets, net	3,992	(34,027)
Loss on joint ventures, net	2,480	4,371
Net assets assumed from affiliation	(414,248)	(312,669)
Restricted contributions for long-term purposes	(28,126)	(24,336)
Changes in operating assets and liabilities:		
Accounts receivable	(50,651)	(78,278)
Supplies inventory and other current assets	11,184	(72,922)
Right-of-use lease asset	46,008	57,252
Other assets, net	(48,495)	40,427
Accounts payable and accrued expenses and accrued interest payable	32,390	41,947
Accrued compensation and related liabilities	50,732	60,582
Right-of-use lease liability	(35,796)	(34,518)
Other liabilities, net	115,173	14,918
Net cash provided by operating activities	<u>284,680</u>	<u>49,626</u>
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(308,269)	(294,860)
Proceeds from disposal of property, plant, and equipment	1,795	57,640
Cash obtained from affiliation	11,490	29,814
Investments in joint ventures, net	(37,653)	(38,393)
Purchases of investments	(6,450,906)	(6,831,712)
Sales of investments	6,615,265	7,021,038
Change in donor trusts	(7,317)	(22,232)
Net cash used in investing activities	<u>(175,595)</u>	<u>(78,705)</u>
Cash flows from financing activities:		
Repayment of long-term debt	(149,585)	(82,401)
Proceeds from line of credit, net	65	62,935
Proceeds from debt issuance	149,376	—
Principal payments on finance lease obligations	(7,499)	(5,782)
Restricted contributions for long-term purposes	28,126	24,336
Net cash provided by (used in) financing activities	<u>20,483</u>	<u>(912)</u>
Net change in cash and cash equivalents	129,568	(29,991)
Cash and cash equivalents, beginning of year	512,076	542,067
Cash and cash equivalents, end of year	<u>\$ 641,644</u>	<u>512,076</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest, net of amount capitalized	\$ 73,933	77,251
Noncash activities:		
Increase in deferred compensation plans	14,795	17,628
Decrease in accounts payable for purchases of property, plant, and equipment	(8,033)	(7,492)

See accompanying notes to consolidated financial statements.

(1) Nature of Organization and Summary of Significant Accounting Policies

(a) Organization Description

MultiCare Health System (MHS), a Washington nonprofit corporation, is an integrated healthcare delivery system providing inpatient, outpatient, and other healthcare services primarily to the residents of Pierce, King, Spokane, Thurston and Yakima Counties and, with respect to pediatric care, much of the southwest Washington region. As of December 31, 2024, MHS was licensed to operate 2,926 inpatient hospital beds, including 120 beds associated with a joint venture psychiatric hospital in Tacoma, Washington. MHS operates ten acute care facilities (Tacoma General Hospital, Good Samaritan Hospital, Allenmore Hospital, Mary Bridge Children's Hospital, Auburn Medical Center, Covington Hospital, Deaconess Hospital, Valley Hospital, Capital Medical Center, Yakima Memorial Hospital and Overlake Medical Center) and one behavioral health hospital (Navos). MHS also operates many outpatient surgical sites, free-standing emergency departments, urgent care, primary care and multispecialty clinics as well as home health and hospice services all located throughout the MHS service areas.

The consolidated financial statements include the operations of these facilities and services as well as those of five wholly owned subsidiaries (Greater Lakes Mental Healthcare, Navos, Medis, Inc., MultiCare Rehabilitation Specialists, P.C., and PNW PACE Partners, LLC), a wholly owned professional services organization supporting cardiovascular services at MHS (CHVI Professional Corp), a wholly owned professional services organization that employs providers for Yakima Memorial Hospital (Memorial Physicians, LLC), a wholly owned accountable care organization (MultiCare Connected Care), a wholly owned clinically integrated healthcare network (Central Washington Healthcare Partners, LLC dba SignalHealth), a leading population health company (Physicians of Southwest Washington), a physical therapy provider (Olympic Sports & Spine) and four fundraising foundations (Overlake Hospital Foundation, Yakima Valley Memorial Hospital Charitable Foundation, Mary Bridge Children's Foundation and MultiCare Foundations, which is doing business as MultiCare Health Foundation, Good Samaritan Foundation, MultiCare South King Health Foundation, MultiCare Behavioral Health Foundation and MultiCare Inland Northwest Foundation).

On October 1, 2024, MHS completed an affiliation of Overlake Medical Center & Clinics (Overlake) and became the sole corporate member. No consideration was exchanged as part of this transaction. Overlake operates an acute care facility, clinics and other services mainly within King County and is the main acute care facility within the new north Puget Sound region. The assets acquired and liabilities assumed were recorded at their estimated fair value as determined using standard asset appraisal techniques. The net assets assumed resulted in an inherent contribution of \$395,923 in the consolidated statements of operations. The remaining contribution of \$18,325 was restricted and is included in net assets assumed in affiliation with donor restrictions in the consolidated statements of

changes in net assets. The following table summarizes the estimated fair values of assets acquired and liabilities assumed as of the acquisition date.

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash	\$	11,490
Accounts receivable		117,022
Other current assets		52,642
Investments		267,371
Land, buildings and equipment		326,615
Other assets		76,167
Accounts payable, accrued compensation and other current liabilities		(131,300)
Long-term debt and other non-current liabilities		<u>(305,759)</u>
Total identifiable net assets assumed	\$	<u>414,248</u>

The following are the results of Overlake that have been included in the 2024 consolidated statements of operations and consolidated statements of changes in net assets from the acquisition date:

Total operating revenues	\$	208,656
Change in net assets without restrictions		(19,086)
Change in net assets with restrictions		4,144

The following unaudited information presents MultiCare's results for the years ended December 31, 2024 and 2023, had the acquisition date occurred on January 1, 2023 for the Overlake affiliation:

	<u>2024</u>	<u>2023</u>
	<u>(Unaudited)</u>	
Total operating revenues	\$ 6,468,925	5,701,328
Changes in net assets without donor restrictions	590,977	368,082
Changes in net assets with donor restrictions	(32,467)	84,437

On January 17, 2023, MHS completed an affiliation of Yakima Valley Memorial Hospital (Yakima) and became the sole corporate member. No consideration was exchanged as part of this transaction. Yakima operates an acute care facility, clinics and other services to the greater Yakima Valley region. The assets acquired and liabilities assumed were recorded at their estimated fair value as determined using standard asset appraisal techniques. The net assets assumed resulted in an inherent contribution of \$293,012 in the consolidated statements of operations. The remaining contribution of \$19,657 was restricted and is included in net assets assumed in affiliation with donor restrictions in the

consolidated statements of changes in net assets. The following table summarizes the estimated fair values of assets acquired and liabilities assumed as of the acquisition date.

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash	\$	29,814
Accounts receivable		69,920
Other current assets		16,675
Land, buildings and equipment		252,096
Intangible asset and other assets		105,830
Accounts payable, accrued compensation and other current liabilities		(112,076)
Long-term debt and other non-current liabilities		<u>(49,590)</u>
Total identifiable net assets assumed	\$	<u>312,669</u>

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of MHS after elimination of all significant intercompany accounts and transactions.

(c) Use of Estimates

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

(d) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid instruments with maturities of three months or less at the date of purchase. Cash equivalents and investments that are held by outside investment managers or restricted per contractual or regulatory requirements are classified as investments on the consolidated balance sheets.

(e) Accounts Receivable

Accounts receivable are primarily comprised of amounts due for healthcare services from patients and third-party payors and are recorded net of amounts for contractual adjustments and implicit price concessions.

(f) Supplies Inventory

Supplies inventory consists of pharmaceutical, medical-surgical, and other supplies generally used in the operations of MHS. Supplies inventory is stated at lower of cost or net realizable value using the average cost method, except for pharmacy, which uses the first-in, first-out (FIFO) method. Obsolete and unusable items are expensed at the time such determination is made.

(g) Donor Restricted Assets

The majority of the donor restricted assets are invested in MHS' investments and are stated at fair value or estimated fair value. Donor restricted assets that are held separately from MHS' investments include perpetual trusts and charitable remainder unitrusts, where MHS is the beneficiary but not the trustee, that are invested in mutual funds, fixed income securities, and equity securities. Those with readily determinable fair values are stated at fair value. Those investments for which quoted market prices are not readily determinable are carried at values provided by the respective investment managers or trustees, which management believes approximates fair value.

Charitable gift annuities, which are included in donor restricted assets, totaled \$1,576 and \$1,947 at December 31, 2024 and 2023, respectively. MHS has recorded a corresponding payable of \$453 and \$1,406 at December 31, 2024 and 2023, respectively, to pay for estimated future obligations to beneficiaries. The current portion of these obligations is included in accounts payable and accrued expenses and the long-term portions are included in other liabilities, net in the accompanying consolidated balance sheets. According to Washington State law, MHS, as a distinct legal entity holding charitable gift annuities, is required to maintain unrestricted net assets of at least \$500, which MHS has done for each of the periods presented.

(h) Investments

MHS accounts for its investment portfolio as a trading portfolio, therefore, investments in fixed income securities, equity securities, and commingled trusts with a readily determinable fair value are recorded at fair value, which are determined based on quoted market prices or prices with observable inputs obtained from national securities exchanges or similar sources. Other investments, including limited partnerships, commingled real estate trust funds, limited liability partnerships, and hedge funds are carried at net asset value (NAV) provided by the respective investment managers, which management believes approximates fair value. Valuations provided by investment managers consider variables such as valuation and financial performance of underlying investments, quoted market prices for similar securities, recent sale prices of underlying investments, and other pertinent information. Management reviews the valuations provided by investment managers and believes that the carrying values of these financial instruments are reasonable estimates of fair value.

Realized gains and losses are recorded using the average cost method. Investment income or loss (including realized gains and losses on investments, change in unrealized gains or losses, interest, and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law.

(i) Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. Depreciation expense is computed using the straight-line method over the following estimated useful lives of the assets:

Buildings	5–80 years
Land improvements	8–20 years
Equipment	2–30 years

MHS capitalizes all software implementation costs that meet the criteria for capitalization, including those that relate to a service contract (e.g., hosting arrangement). The capitalized software implementation costs are reflected within property, plant and equipment in the consolidated balance sheets. These costs are amortized together with the costs of the related software license; however, the implementation costs related to a service arrangement are amortized over the term of the arrangement. The amortization period for all capitalized implementation costs is generally 10 years.

Maintenance and repairs are charged to operations as they occur. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Gains upon sale or retirement of property, plant, and equipment are included in other operating revenue whereas losses are included in other expenses. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of constructing those assets.

MHS assesses potential impairments to its long-lived assets as well as its intangible assets, as described below, when there is evidence that events or changes in circumstances indicate that an impairment has been incurred. These changes can include a deterioration in operating performance, a reduction in reimbursement rates from government or third-party payors or a change in business strategy. An impairment charge is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. In 2024 and 2023, there were no impairment charges.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(j) Leases

Management reviews contracts in order to identify leases and properly classify leases as either operating or financing. MHS is a lessee of various equipment and facilities under noncancelable operating and financing leases. Operating and financing right-of-use (ROU) liabilities are recognized based on the net present value of lease payments over the lease term at the commencement date of the lease and are reduced by payments made on each lease on the straight-line basis. Since most of

the leases do not provide an implicit rate of return, MHS uses its incremental borrowing rate based on information available at the commencement date of the lease in determining the present value of lease payments. Generally, MHS cannot determine the interest rate implicit in the lease because it does not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, MHS generally uses its incremental borrowing rate as the discount rate for the lease. MHS' incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments using similar terms. Leases with an initial term of 12 months or less are not recorded on the balance sheet; rather, rent expense for these leases is recognized on a straight-line basis over the lease term, or when incurred if a month-to-month lease.

If a lease contains a renewal option at the commencement date and it is considered reasonably certain that the renewal option will be exercised by management to renew the lease, the renewal option payments are included in MHS' net minimum lease payments used to determine the right-of-use lease liabilities and related lease assets. All other renewal options are included in right-of-use lease liabilities and related lease assets when they are reasonably certain to be exercised.

All lease agreements generally require MHS to pay maintenance, repairs, property taxes and insurance costs, which are variable amounts based on actual costs incurred during each applicable period. Such costs are not included in the determination of the ROU lease liability or ROU lease asset. Variable lease cost also includes escalating rent payments that are not fixed at commencement but are based on an index that is determined in future periods over the lease term based on changes in the Consumer Price Index or other measure of cost inflation.

Variable lease payments associated with MHS' leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented in other expenses in the consolidated statement of operations and changes in net assets.

MHS has elected the practical expedient to not separate lease components from non-lease components related to its real estate leases.

(k) Goodwill and Intangible Assets

Goodwill is an asset representing the future economic benefits arising from the difference in the fair value of the business acquired and the fair value of the identifiable and intangible net assets acquired in a business combination. Indefinite-lived intangible assets are assets that are not amortized because there is no foreseeable limit to cash flows generated from them.

If it is more likely than not that goodwill is impaired, MHS records the amount that the carrying value exceeds the fair value as an impairment charge. Goodwill is not amortized and along with indefinite-lived intangible assets is evaluated at least annually for impairment. There were no impairment charges recognized during the years ended December 31, 2024 or 2023.

The following table summarizes the balances of goodwill and intangible assets at December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Goodwill	\$ 233,852	232,085
Intangible assets, net of accumulated amortization of \$7,177 and \$7,712, respectively	<u>26,729</u>	<u>27,745</u>
Total	<u>\$ 260,581</u>	<u>259,830</u>

The balance sheet as of December 31, 2023 includes intangible assets recognized as part of the Yakima affiliation in the amount of \$7,696.

Amortizing intangible assets are comprised of certificates of need, license agreements, trade names and lease arrangements, which all have finite useful lives. Amortization expense is recorded on a straight-line basis over the estimated useful life of the assets, which ranges from three to thirty years, associated with the nature of the intangible asset. Amortization expense was \$808 and \$677 for the years ended December 31, 2024 and 2023, respectively.

(l) Investment in Joint Ventures

MHS maintains ownership in certain joint ventures related to imaging, office buildings, behavioral health and other healthcare focused activities and accounts for these joint ventures under the equity method of accounting. As of December 31, 2024 and 2023, MHS held ownership interests in 35 and 27 joint ventures, respectively. Investment in joint ventures is included in other assets, net in the accompanying consolidated balance sheets. The loss on joint ventures for the years ended December 31, 2024 and 2023 were \$2,480 and \$4,371, respectively, each year associated with several joint ventures. Losses are included in other operating revenue on the consolidated statements of operations.

(m) Estimated Third-Party Payor Settlements

Medicare cost reports are filed annually by MHS with the Medicare intermediary and are subject to audit and adjustment prior to settlement. Estimates of net settlements due to Medicare were \$11,927 and \$7,646 as of December 31, 2024 and 2023, respectively, and have been recorded within accounts payable and accrued expenses in the accompanying consolidated balance sheets. Third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, based upon the amount of the final settlements. Patient service revenue increased by \$4,281 and \$2,865 in 2024 and 2023, respectively to reflect changes in the estimated Medicare settlements for prior years.

(n) Interest Rate Swaps

MHS maintains several interest rate swap agreements as a means of hedging its exposure to variable-based interest rates and fluctuations in cash flows as part of its overall interest rate risk

management strategy. All MHS interest rate swaps are recorded at fair value. The accounting for changes in the fair value of these swaps depends on whether those had been designated as cash flow hedges. As of December 31, 2024 and 2023, none of MHS' interest rate swaps were designated as cash flow hedges and therefore, the changes in fair value are recognized and included in other income (loss) on the consolidated statements of operations. These swaps have notional amounts totaling approximately \$302,020 and expire starting in August 2027 through August 2049. During 2023, the interest rate swap agreements were amended to change the variable rate basis from LIBOR to SOFR due to the discontinuation of LIBOR. The majority of the swaps have the economic effect of fixing the SOFR-based variable interest rate on an equivalent amount of MHS' outstanding floating rate principal debt.

Under master netting provisions of the International Swap Dealers Association (ISDA) agreement with each of the counterparties, MHS is permitted to settle with the counterparties on a net basis. However, due to the nature of the specific swap arrangements in MHS' interest rate swap portfolio, the fair value of interest rate swap assets and swap liabilities are presented on a gross basis on the consolidated balance sheets.

(o) Net Assets with Donor Restrictions

Gifts are reported as support with donor restrictions if they are received with donor stipulations that restrict the use of the donated assets to a specific time or purpose or have been restricted by donors and are maintained by MHS in perpetuity. When restricted funds to be used for operations are expended for their restricted purposes or by the occurrence of the passage of time, these amounts are released from restrictions for operations and are classified as revenues, gains, and other support without donor restrictions. When restricted funds are expended for the acquisition of property, plant, and equipment, these amounts are recognized in net assets without donor restrictions as net assets released from restriction – capital acquisitions.

MHS applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, related to using the present value technique to measure fair value of pledges receivable. In accordance with ASC Topic 820, MHS has applied the expected present value technique to pledges received after January 1, 2009 that adjusts for a risk premium to take into account the risks inherent in those expected cash flows. Pledges of financial support are recorded as pledges receivable when unconditional pledges are made and are stated at net realizable value. Pledges are reported net of an allowance for uncollectible pledges and pledges to be collected in future years are reflected at a discounted value using a weighted average discount rate. As of December 31, 2024 and 2023, MHS has recorded \$27,302 and \$26,678, respectively, of net pledge receivables, which are included in donor-restricted assets in the accompanying consolidated balance sheets. As of December 31, 2024, \$15,162 of pledges are due in one year or less and \$7,988 in two to eight years.

(p) Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which MHS expects to receive in exchange for providing patient services. These amounts are due from patients, third-party payors, and others and include the variable consideration for retroactive adjustments to revenue due to

final settlement of audits, reviews, and investigations. MHS bills the patient and third-party payors several days after the services are performed or when the patient is discharged from the facility, whichever is later.

(q) *Hospital Safety Net Assessment*

The State of Washington (the State) has a safety net assessment program involving Washington State hospitals to increase funding from other sources and obtain additional federal funds to support increased payments to providers for Medicaid services. The program switched retroactively from a state fiscal year to a calendar year in January 2024 after regulatory approval was received in June 2024. In connection with this program, MHS recorded increases in patient service revenue of \$454,728 and \$99,048 for 2024 and 2023, respectively, and incurred assessments of \$209,328 and \$68,134 for 2024 and 2023, respectively, which were recorded in other operating expenses in the accompanying consolidated statements of operations. MHS has outstanding receivables of \$11,742 and \$13,666 associated with this program as of December 31, 2024 and 2023, respectively, which are included with accounts receivable on the consolidated balance sheets.

(r) *Uncompensated and Undercompensated Care*

MHS provides a variety of uncompensated and undercompensated healthcare services to the communities it serves within the purview of its mission. Because MHS does not pursue collection of amounts determined to qualify as uncompensated care, MHS has determined that it has provided implicit price concessions to uninsured patients and patients with other uninsured balances. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amount MHS expects to receive based on its historical collections from these patients. Patients who meet the criteria of MHS' uncompensated care policy are eligible to receive these services without charge or at an amount less than MHS' established rates. Such amounts determined to qualify as charity care are not reported as revenue. The State provides guidelines for charity care provided by hospitals in the state. Hospitals are recommended to provide full charity care to patients who meet 100% of the federal poverty guidelines and a lesser amount to patients who meet up to 200% of the federal poverty guidelines. MHS provides full charity care to patients who meet 300% of the federal poverty guidelines and also provides uncompensated care on a sliding scale for patients whose income is between 301% and 500% of the federal poverty guidelines for true self-pay patients and patients with deductibles and coinsurance amounts. The estimated cost of charity care provided was approximately \$88,000 and \$67,000 in 2024 and 2023, respectively. The estimated cost of uncompensated and undercompensated services provided to patients covered under Medicaid in excess of payments received was approximately \$435,000 and \$496,000 in 2024 and 2023, respectively. These cost estimates are calculated based on the overall ratio of costs to charges for MHS.

(s) *Other Operating Revenue*

Other operating revenue includes revenue from cafeteria sales, retail pharmacy, laboratory revenue from community providers, medical office rental income, contributions without donor restrictions, grant revenue, contracted behavioral healthcare revenue, capitated revenue, and other miscellaneous revenue.

(t) Excess of Revenues over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in net assets without donor restrictions, which are excluded from the excess of revenues over expenses, primarily include changes in accrued pension asset, net assets assumed in affiliation, net assets released from restrictions for capital expenditures, and capital assets received.

(u) Federal Income Taxes

ASC Subtopic 740-10, *Income Taxes*, clarifies the accounting for uncertainty in income taxes recognized in MHS' consolidated financial statements. This topic also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. Only tax positions that meet the "more-likely than-not" recognition threshold at the effective date may be recognized or continue to be recognized upon adoption. In addition, this topic provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Other than Medis, Inc., Physicians of Southwest Washington, LLC and Olympic Sports & Spine, PLLC, which are all taxable entities, all of the other entities have obtained determination letters from the Internal Revenue Service that they are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in 501(c)(3) of the Internal Revenue Code, except for tax on unrelated business income.

(v) Self-Insurance Reserves

MHS is self-insured with respect to professional and general liability, workers' compensation and medical and other health benefits with excess insurance coverage over self-insured retention limits. MHS records insurance liabilities for these specific items by using third party actuarial calculations and certain assumptions and inputs such as MHS historical claims experience and the estimated amount of future claims that will be incurred.

(2) Coronavirus (COVID-19) Impact

MHS has filed applications and obtained reimbursement of additional expenses from the Federal Emergency Management Agency (FEMA) based on criteria due to the national emergency declaration made due to COVID-19. MHS has submitted funding applications with FEMA that covers costs incurred in order to respond to the COVID-19 pandemic. MHS recognizes FEMA reimbursements as they are obligated by the agency. MHS recognized \$39,404 and \$111,226 of FEMA reimbursements for the years ended December 31, 2024 and 2023, respectively, within other operating revenue in the statements of operations.

(3) Revenue from Contracts with Customers

Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by MHS and are recognized either over time or at a point in time. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred through a point in time in relation to total actual charges incurred. MHS believes that this method provides a useful depiction of the provision of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospitals or clinics receiving inpatient or outpatient services. MHS measures an inpatient performance obligation from time of admission to time of discharge and an outpatient performance obligation from the start of the outpatient service to the completion of the outpatient service. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided to patients and customers.

MHS has elected to apply the optional exemption in ASC 606-10-50-14a as all of MHS' performance obligations related to contracts with a duration of less than one year. Under this exemption, MHS was not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Any unsatisfied or partially unsatisfied performance obligations are completed within days or weeks of the end of the year.

MHS determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with MHS policy, and implicit price concessions provided to uninsured patients. MHS determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies and historical experience. MHS determines its estimate of implicit price concessions based on its historical collection experience with each class of patients.

Contractual agreements with third-party payors provide for payments at amounts less than MHS' established charges. A summary of the payment arrangements with major third-party payors is as follows:

- Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, which provides for reimbursement based on Medicare Severity Diagnosis-Related Groups (MS-DRGs). These rates vary according to a patient classification system that is based on clinical diagnosis, acuity, and expected use of hospital resources. The majority of Medicare outpatient services is reimbursed under a prospective payment methodology, the Ambulatory Payment Classifications (APCs), or fee schedules.
- Medicaid – Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment system similar to Medicare; however, Medicaid utilizes All Payor Refined Diagnosis-Related Groups (APR-DRGs) as opposed to Medicare's MS-DRGs. The majority of Medicaid outpatient services is reimbursed under a prospective payment methodology, the Enhanced Ambulatory Patient Groups (EAPG), or fee schedules.
- Other – MHS has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to MHS under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates and fee schedules.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements with the government. Compliance with such laws and regulations may also be subject to future government exclusion from the related programs. There can be no assurance that regulatory or governmental authorities will not challenge MHS' compliance with these laws and regulations, and it is not possible to determine the impact, if any, that such claims or penalties would have upon MHS. In addition, the contracts with commercial payors also provide for retroactive audit and review of claims that can reduce the amount of revenue ultimately received.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the current estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled and no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price were not significant in 2024 or 2023.

Generally, patients who are covered by third-party payors are responsible for related deductibles and co-insurance, which vary in amount. MHS also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. MHS estimates the transaction price for patients with deductibles and co-insurance from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charges by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Additional revenue due to changes in estimates of implicit price concessions, discounts, and contractual adjustments for prior years were not significant for 2024 or 2023. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay and deemed uncollectable are recorded as bad debt expense.

Consistent with MHS' mission, care is provided to patients regardless of their ability to pay. MHS has determined that it has provided implicit price concessions to uninsured patients and patients with other uninsured balances. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amount MHS expects to receive based on its collection experience with those patients. Patients who meet the criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as uncompensated care are not reported as revenue.

MHS has determined that the best depiction of its revenue is by its mix of payors as this shows the amount of revenue recognized from each portfolio. Patient service revenue disaggregated by payor for the years ended December 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Payors:		
Medicare	\$ 1,541,852	1,392,360
Medicaid	1,135,551	697,273
Premera	754,954	568,520
Regence	539,747	408,562
Aetna	240,296	191,124
United Healthcare	217,639	150,687
First Choice	167,750	131,606
Kaiser Permanente	140,717	112,527
Self-pay	23,249	20,654
Other	735,123	848,015
	<u>\$ 5,496,878</u>	<u>4,521,328</u>

MHS has elected to apply the practical expedient under ASC 340-40-25-4 and therefore, all incremental customer contract acquisition costs are expensed as incurred, as the amortization period of the asset that MHS would have otherwise recognized is one year or less in duration.

(4) Concentration of Credit Risk

MHS grants credit without collateral to its patients, most of whom are residents of the communities it serves and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors at December 31, 2024 and 2023 was as follows:

	<u>2024</u>	<u>2023</u>
Medicare	35 %	35 %
Medicaid	18	22
Premera	9	8
Regence	7	7
Self-pay	7	5
First Choice	2	2
Health Care Exchange	2	1
Other commercial insurance	20	20
	<u>100 %</u>	<u>100 %</u>

(5) Fair Value Measurements

(a) Fair Value Hierarchy

In accordance with ASC Topic 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for similar assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical or similar assets or liabilities that MHS could access at the measurement date. Level 1 securities generally include investments in equity securities, mutual funds and certain fixed income securities.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are based upon observable market inputs for the asset or liability, either directly or indirectly. Level 2 securities generally include investments in fixed income securities (composed primarily of government, agency and corporate bonds) and interest rate swaps.
- Level 3 inputs are unobservable market inputs for the asset or liability. Level 3 securities include donor trusts where MHS is not the trustee.

The level in the fair value hierarchy within which a fair value measurement, in its entirety, falls is based on the lowest level input that is significant to the fair value measurement.

ASC Subtopic 820-10 allows for the use of a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by MHS is the Net Asset Value (NAV) per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. Valuations provided by investment managers consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the redemption price. MHS reviews valuations and assumptions provided by investment managers for reasonableness and believes that the carrying amounts of these financial instruments approximate the estimated fair value of the instrument. Where investments are not presented at fair value, NAV is used as a practical expedient to approximate fair value.

The following tables present the placement in the fair value hierarchy of investment assets and liabilities that are measured at fair value on a recurring basis and investments valued at NAV at December 31, 2024 and 2023:

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2024			
Assets:				
Trading securities:				
Mutual funds	\$ 1,142,727	1,142,727	—	—
Fixed income bond funds	485,222	485,222	—	—
Fixed income governmental obligations	208,568	146,275	62,293	—
Fixed income other	265,062	—	265,062	—
Donor trusts	39,475	—	—	39,475
Interest rate swaps	130	—	130	—
Total assets at fair value	2,141,184	\$ 1,774,224	327,485	39,475
Investment assets valued at NAV	218,299			
Total assets at fair value or NAV	\$ 2,359,483			
Liabilities:				
Interest rate swaps	\$ 1,869	—	1,869	—

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2023			
Assets:				
Trading securities:				
Mutual funds	\$ 1,069,171	1,069,171	—	—
Fixed income bond funds	363,707	363,707	—	—
Fixed income governmental obligations	160,305	124,321	35,984	—
Fixed income other	163,597	—	163,597	—
Donor trusts	36,427	—	—	36,427
Interest rate swaps	26,421	—	26,421	—
Total assets at fair value	1,819,628	\$ 1,557,199	226,002	36,427
Investment assets valued at NAV	289,026			
Total assets at fair value or NAV	\$ 2,108,654			
Liabilities:				
Interest rate swaps	\$ 6,425	—	6,425	—

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at December 31, 2024 and 2023:

	NAV December 31, 2024	NAV December 31, 2023	Unfunded commitments	Redemption frequency	Redemption notice period
Hedge funds	\$ 16,356	1,472	60	Quarterly	60 or 95 business days prior to valuation date
Common trust funds	181,275	280,800	N/A	Daily	1 or more business valuation date
Limited partnerships	20,668	6,754	12,246	N/A	N/A
Total investments valued at NAV	\$ 218,299	289,026	12,306		

Hedge funds include investments in hedge fund-of-funds products with certain investment managers. The fair values of the investments in this category have been estimated using the NAV per share of the investment.

Common trust funds include investments in a collective or common trust account that invests funds in an underlying fund or set of funds. The trust account seeks an investment return that approximates the performance of an index as defined by each common trust fund. The fair value of the investments in this category are estimated using the NAV per share of the fund that is derived from the underlying investments in the trust fund.

Limited partnerships include investments in private equity and venture capital funds in both developed and emerging markets. The fair values of the investments in this category have been estimated using the NAV of ownership interest in partners' capital. These assets can never be redeemed with the partnerships. Instead, the nature of the investment in this category is that distributions are received through the liquidation of the underlying assets of the partnership.

(b) Interest Rate Swaps

The interest rate swaps are recorded at estimated fair value by using certain observable market inputs that participants would use from closing prices for similar assets. In addition, other valuation techniques and market inputs are used that help determine the fair values of these swaps, which include certain valuation models, current interest rates, forward yield curves, implied volatility and credit default swap pricing.

The fair value of the interest rate swaps liability is included in interest rate swap liabilities on the consolidated balance sheets, and the fair value of the interest rate swap asset is included in other assets, net on the consolidated balance sheets. The fair value changes of these interest rate swaps for the years ended December 31, 2024 and 2023 were a loss of \$21,729 and a gain of \$5,970, respectively, and are included in gain on interest rate swaps in other income (loss), net in the consolidated statements of operations. Also included in the gain on interest rate swaps is the gain on net cash settlement amounts associated with the swaps of \$40,843 and \$8,441 for the years ended December 31, 2024 and 2023, respectively.

The following table represents both the fair value and settlement value for the interest rate swap assets and liabilities as of December 31, 2024 and 2023:

		Asset derivatives					
		2024			2023		
		Balance sheet location	Fair value	Settlement value	Balance sheet location	Fair value	Settlement value
Derivative instruments:							
Interest rate sw aps	Other assets, net	\$	130	110	Other assets, net	\$	26,421
							29,351
		Liability derivatives					
		2024			2023		
		Balance sheet location	Fair value	Settlement value	Balance sheet location	Fair value	Settlement value
Derivative instruments:							
Interest rate sw aps	Interest rates sw ap liabilities	\$	1,869	2,045	Interest rates sw ap liabilities	\$	6,425
							7,143

(6) Donor Restricted Assets and Investments

A summary of donor restricted assets and investments at 2024 and 2023 is as follows:

December 31, 2024			
	Donor restricted assets	Investments	Total
Mutual funds	\$ 35,098	1,107,629	1,142,727
Fixed income securities	13,184	945,668	958,852
Hedge funds	233	16,123	16,356
Common trust funds	2,330	178,945	181,275
Limited partnerships	—	20,668	20,668
Donor trusts	39,475	—	39,475
Pledge receivables, net and other	77,854	—	77,854
Total	\$ 168,174	2,269,033	2,437,207

December 31, 2023			
	Donor restricted assets	Investments	Total
Mutual funds	\$ 25,522	1,043,649	1,069,171
Fixed income securities	16,414	671,195	687,609
Hedge funds	35	1,437	1,472
Common trust funds	6,703	274,097	280,800
Limited partnerships	162	6,592	6,754
Donor trusts	36,427	—	36,427
Pledge receivables, net and other	66,300	—	66,300
Total	\$ 151,563	1,996,970	2,148,533

Fixed income securities include mutual funds, corporate bonds, mortgage-backed securities, asset-backed securities, U.S. government obligations, and state government obligations.

(7) Liquidity and Availability of Financial Assets

MHS actively monitors the availability of resources required to meet its operating obligations and other contractual commitments, while also striving to maximize investment returns of its available funds. To help meet its general obligations, MHS can also access the credit markets as a means of producing liquidity, if needed. MHS draws income, appreciation and distributions from its endowment fund up to 5% of the endowment average account value annually, as applicable donor restrictions are met, as another way of providing liquidity. For purposes of analyzing resources available to meet general expenditures over a

12-month period, MHS considers all expenditures related to its ongoing activities to provide integrated healthcare delivery as well as the conduct of services undertaken to support these activities to be general expenditures.

At December 31, 2024 and 2023, MHS' financial resources are as follows:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 641,644	512,076
Accounts receivable	823,807	659,925
Other current assets, net	360,502	244,617
Donor restricted assets	168,174	151,563
Investments	<u>2,269,033</u>	<u>1,996,970</u>
	4,263,160	3,565,151
Less prepaid assets included in other current assets, net	(92,009)	(68,927)
Less donor restricted assets	(168,174)	(151,563)
Less investments with redemption limitations of greater than one year	<u>(20,668)</u>	<u>(6,754)</u>
Total financial assets available for general expenditures	\$ <u><u>3,982,309</u></u>	<u><u>3,337,907</u></u>

In addition to financial assets available to meet general expenditures over the next 12 months, MHS operates mostly using revenues, gains and other support without donor restrictions and anticipates collecting sufficient revenues to cover general expenditures. MHS also has a \$100,000 line of credit available for general expenditures, if needed (note 15).

(8) Property, Plant, and Equipment, Net

A summary of property, plant, and equipment at December 31, 2024 and 2023 is as follows:

	2024	2023
Land and land improvements	\$ 360,222	218,551
Buildings	2,786,807	2,596,458
Equipment	1,327,290	1,236,255
	<u>4,474,319</u>	<u>4,051,264</u>
Less accumulated depreciation	<u>(1,956,420)</u>	<u>(1,806,178)</u>
	2,517,899	2,245,086
Construction in progress	<u>409,884</u>	<u>224,381</u>
Property, plant, and equipment, net	<u><u>\$ 2,927,783</u></u>	<u><u>2,469,467</u></u>

Total depreciation and amortization expense for the years ended December 31, 2024 and 2023 was \$171,195 and \$163,267, respectively. Depreciation expense charged to operations for the years ended December 31, 2024 and 2023 amounted to \$170,387 and \$162,991, respectively.

(9) Other Assets, Net

Other assets are as follows at December 31, 2024 and 2023:

	2024	2023
Investment in joint ventures	\$ 137,735	92,953
Deferred compensation plan assets held in trust (note 12)	119,463	104,668
Accrued pension asset (note 12)	57,446	49,236
Self-insured retention receivables, net of current portion (notes 13 and 14)	15,714	18,128
Net investment in lease (note 17(b))	20,115	22,459
Notes receivable (note 10)	80,467	75,138
Interest rate swap asset (note 5(b))	130	26,421
Other	<u>40,666</u>	<u>12,516</u>
Other assets, net	<u><u>\$ 471,736</u></u>	<u><u>401,519</u></u>

Deferred compensation plan assets held in trust are participant-managed investments consisting of equity and fixed income mutual funds with prices quoted in active markets.

(10) Notes Receivable

In December 2020, MHS executed a promissory note with Astria Health for a \$75,000 loan. The loan bears a fixed interest rate of 9.5% with payments due June 30 and December 31 of each year.

(11) Other Liabilities, Net

Other liabilities are as follows at December 31, 2024 and 2023:

	2024	2023
Professional liability, net of current portion (note 13)	\$ 176,027	121,130
Deferred compensation liability (note 12)	119,463	104,668
Workers' compensation liability, net of current portion (note 14)	21,672	15,651
Interest rate swap liability (note 5(b))	1,869	6,425
Other	76,949	6,124
Other liabilities, net	<u>\$ 395,980</u>	<u>253,998</u>

(12) Retirement Plans

(a) MHS Defined Benefit Pension Plan

MHS operates one qualified defined benefit pension plan (the MHS Plan) covering eligible employees. The MHS Plan was closed to new employees effective after July 31, 2002. The benefits are based on years of service and the employee's highest five consecutive years of compensation. Contributions to the MHS Plan are made by MHS, if any, in amounts determined by MHS management with the assistance of its actuary. The unit credit actuarial cost method is used to calculate the funding requirements. MHS had no employer contributions for 2024 and 2023, which met the minimum funding requirements of ERISA, and does not expect to make contributions in the subsequent year. Effective December 31, 2016, participants no longer accrue pension benefits under the Plan.

The following tables set forth the changes in projected benefit obligations, changes in fair value of plan assets, and components of net periodic benefit costs for the MHS Plan, which has measurement dates of December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Change in projected benefit obligation:		
Projected benefit obligations at beginning of year	\$ 455,931	454,337
Service cost	710	780
Interest cost	23,177	24,026
Actuarial (gain) loss	(20,156)	10,060
Expected administrative expenses	(710)	(780)
Benefits paid	<u>(31,094)</u>	<u>(32,492)</u>
Projected benefit obligations at end of year	\$ <u>427,858</u>	<u>455,931</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 505,167	490,765
Actual gain on plan assets	10,216	47,597
Actual administrative expenses	(747)	(703)
Benefits paid	<u>(31,094)</u>	<u>(32,492)</u>
Fair value of plan assets at end of year	\$ <u>483,542</u>	<u>505,167</u>
Funded status recognized in consolidated balance sheets consist of:		
Asset for pension benefits	\$ 55,684	49,236
Amount recognized in net assets without donor restrictions:		
Net loss	106,948	106,209
	<u>2024</u>	<u>2023</u>
Weighted average assumptions used to determine benefit obligations as of December 31:		
Discount rate	5.80 %	5.30 %

The actuarial gains/losses recognized as part of the change in the projected benefit obligation are due to the update to participant census information and changes in the discount rate seen in each plan year.

The expected return on plan assets assumption is based upon an analysis of historical long-term returns for various investment categories as measured by appropriate indices. These indices are weighted based upon the extent to which plan assets are invested in the particular categories in arriving at MHS' determination of a composite expected return. An actuary reviews the assumptions annually for reasonableness.

The components of net periodic benefit cost are as follows during the years ended December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Components of net periodic benefit cost:		
Service cost	\$ 710	780
Interest cost	23,177	24,026
Expected return on plan assets	(31,186)	(37,568)
Amortization of prior service cost	112	112
	<u>\$ (7,187)</u>	<u>(12,650)</u>
	<u>2024</u>	<u>2023</u>
Weighted average assumptions used to determine net periodic costs as of December 31:		
Discount rate	5.30 %	5.50 %
Expected return on plan assets	5.80	6.30

During the years ended December 31, 2024 and 2023, the MHS Plan made lump-sum cash payments (settlements) to plan participants and in exchange the MHS Plan was relieved of all remaining liabilities of future payments to those plan participants. These settlements are included in benefits paid within the change in projected benefit obligation.

The accumulated benefit obligation for the MHS Plan was \$427,858 and \$455,931 at December 31, 2024 and 2023, respectively.

(i) *Estimated Future Benefit Payments*

The following benefits payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	<u>Pension benefits</u>
2025	\$ 36,431
2026	36,223
2027	37,241
2028	35,618
2029–34	166,158

(ii) *Plan Assets*

The following tables set forth by level, within the fair value hierarchy, the MHS Plan's investments at fair value:

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2024			
Assets:				
Cash and cash equivalents	\$ 10,380	10,380	—	—
Trading securities:				
Mutual funds	40,505	40,505	—	—
Fixed income bond funds	34,969	34,768	201	—
Fixed income governmental obligations	217,980	174,950	43,030	—
Fixed income other	151,566	95	151,471	—
Commingled trust fund – international equity	9,452	—	9,452	—
	464,852	\$ 260,698	204,154	—
Broker receivables	\$ 20,741			
Broker payables	(74,236)			
Total assets at fair value	411,357			
Investments valued at NAV	72,185			
Total assets at fair value or NAV	\$ 483,542			

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2023			
Assets:				
Cash and cash equivalents	\$ 2,586	2,586	—	—
Trading securities:				
Mutual funds	47,061	47,061	—	—
Fixed income bond funds	38,421	38,227	194	—
Fixed income governmental obligations	199,689	159,733	39,956	—
Fixed income other	166,770	6,764	160,006	—
Commingled trust fund – international equity	10,724	—	10,724	—
	465,251	\$ 254,371	210,880	—
Broker receivables	\$ 20,343			
Broker payables	(54,381)			
Total assets at fair value	431,213			
Investments valued at NAV	73,954			
Total assets at fair value or NAV	\$ 505,167			

There were no significant transfers into or out of Level 1 or Level 2 financial instruments during the years ended December 31, 2024 and 2023.

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at December 31, 2024 and 2023:

	NAV December 31, 2024	NAV December 31, 2023	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Absolute return funds	\$ 69,151	70,377	N/A	Monthly	5 business days prior to valuation date
Limited partnerships	<u>3,034</u>	<u>3,577</u>	<u>850</u>	N/A	N/A
Total investments valued at NAV	\$ <u><u>72,185</u></u>	<u><u>73,954</u></u>	<u><u>850</u></u>		

Absolute return fund investments consist primarily of listed equity, equity-related and debt securities, including exchange-traded funds, other securities and other pooled investment vehicles. These investments use derivatives or other instruments for both investment and hedging purposes and may take long and/or short positions, and the derivative investments may include but are not restricted to futures, options, swaps, and forward currency contracts.

Limited partnerships include investments in private equity and venture capital in both developed and emerging markets. The fair values of the investments in this category have been estimated using the NAV of MHS' ownership interest in partners' capital. These assets can never be redeemed with the partnerships. Instead, the nature of the investment in this category is that distributions are received through the liquidation of the underlying assets of the partnership.

The defined benefit plan weighted average asset allocations at December 31, 2024 and 2023 by asset category are as follows:

	2024	2023
Asset category:		
Domestic equities	6 %	6 %
International equities	5	5
Fixed income securities	88	88
Alternative investments	<u>1</u>	<u>1</u>
	<u>100 %</u>	<u>100 %</u>

(iii) *Investment Objectives*

The target asset allocations for each asset class are set based on the achieved funding levels for the Plan and are summarized below:

	<u>2024</u>	<u>2023</u>
Asset category:		
Domestic equities	5 %	5 %
International equities	5	5
Fixed income securities	90	90
	<u>100 %</u>	<u>100 %</u>

(iv) *Investment Categories*

Equities

The strategic role of domestic equities is to provide higher expected market returns (along with international equities) of the major asset classes; maintain a diversified exposure within the U.S. stock market using multimanager portfolio strategies; and achieve returns in excess of passive indices using active investment managers and strategies.

The strategic role of international equities is to provide higher expected market return premiums (along with domestic equities) of the major asset classes and diversify the Plan's overall equity exposure by investing in non-U.S. stocks that are less than fully correlated to domestic equities with similar return expectations; to maintain a diversified exposure within the international stock market through the use of multimanager portfolio strategies; and to achieve returns in excess of passive indices through the use of active investment managers and strategies.

The strategic role of emerging markets is to diversify the portfolio relative to domestic equities and fixed income investments and to specifically include equity investment in selected global markets and may also include currency hedging for defensive purposes.

Fixed Income

The strategic role of fixed income securities is to diversify the Plan's equity exposure by investing in fixed income securities that exhibit a low correlation to equities and lower volatility; maintain a diversified exposure within the U.S. fixed income market using multimanager portfolio strategies; and achieve returns in excess of passive indices through the use of active investment managers and strategies. It also provides effective diversification against equities and a stable level of cash flow.

Alternative Investments

The strategic role of alternative investments is for diversification relative to equities and fixed income investments, to add absolute return using hedging strategies, and to achieve expected return premiums over longer holding periods. Alternative investments include investments in equity,

equity-related and debt securities, including exchange-traded funds, other securities and other pooled investment vehicles, hedge funds and private equities and are under the supervision and control of investment managers. Hedge funds include investments in a variety of instruments including stocks, bonds, commodities, and a variety of derivative instruments. Private equities consist primarily of equity investments made in companies that are not quoted on a public stock market, which can include U.S. and non-U.S. venture capital, leveraged buyouts, and mezzanine financing.

(b) Yakima Defined Benefit Pension Plan

Yakima operates one qualified defined benefit pension plan (the Yakima Plan) covering eligible employees. The Yakima Plan was closed to new employees effective after May 31, 2008. The benefits are based on years of service and the employee's highest five consecutive years of compensation. Contributions to the Yakima Plan are made by MHS, if any, in amounts determined by MHS management with the assistance of its actuary. The unit credit actuarial cost method is used to calculate the funding requirements. There were no employer contributions for 2024 and 2023, which met the minimum funding requirements of ERISA. Effective December 31, 2010 for nonunion participants and December 31, 2011 for union participants, participants no longer accrue pension benefits under the Yakima Plan.

The following tables set forth the changes in projected benefit obligations, changes in fair value of plan assets, and components of net periodic benefit costs for the Yakima Plan, which has measurement dates of December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Change in projected benefit obligation:		
Projected benefit obligations at beginning of year	\$ 111,744	111,906
Interest cost	5,654	5,899
Actuarial (gain) loss	(3,695)	2,107
Benefits paid	<u>(9,220)</u>	<u>(8,168)</u>
Projected benefit obligations at end of year	<u>\$ 104,483</u>	<u>111,744</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 113,328	111,962
Actual gain on plan assets	2,137	9,534
Benefits paid	<u>(9,220)</u>	<u>(8,168)</u>
Fair value of plan assets at end of year	<u>\$ 106,245</u>	<u>113,328</u>
Funded status recognized in consolidated balance sheets consist of:		
Asset for pension benefits	\$ 1,762	1,584
Amount recognized in net assets without donor restrictions:		
Net loss	(4,754)	(5,190)

	<u>2024</u>	<u>2023</u>
Weighted average assumptions used to determine benefit obligations as of December 31:		
Discount rate	5.75 %	5.25 %

The actuarial gains/losses recognized as part of the change in the projected benefit obligation are due to the update to participant census information, updates to demographic assumptions and changes in the discount rate seen in each plan year.

The expected return on plan assets assumption is based upon an analysis of historical long-term returns for various investment categories as measured by appropriate indices. These indices are weighted based upon the extent to which plan assets are invested in the particular categories in arriving at Yakima's determination of a composite expected return. An actuary reviews the assumptions annually for reasonableness.

The components of net periodic benefit cost are as follows during the years ended December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Components of net periodic benefit cost:		
Interest cost	\$ 5,654	5,899
Expected return on plan assets	<u>(6,268)</u>	<u>(6,191)</u>
	<u>\$ (614)</u>	<u>(292)</u>

	<u>2024</u>	<u>2023</u>
Weighted average assumptions used to determine net periodic costs as of December 31:		
Discount rate	5.25 %	5.50 %
Expected return on plan assets	5.75	5.75

The accumulated benefit obligation for the Yakima Plan was \$104,483 and \$111,744 at December 31, 2024 and 2023, respectively.

(i) *Estimated Future Benefit Payments*

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Pension benefits
2025	\$ 8,669
2026	8,703
2027	8,753
2028	8,741
2029–2034	41,727

(ii) *Plan Assets*

The following tables set forth by level, within the fair value hierarchy, the Yakima Plan's investments at fair value:

Fair value measurements at reporting date using				
	December 31, 2024	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 2,820	2,820	—	—
Trading securities:				
Fixed income other	74,130	—	74,130	—
Fixed income governmental obligations	17,937	10,209	7,728	—
Mutual funds	11,538	11,538	—	—
Total assets at fair value	\$ 106,425	24,567	81,858	—

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2023			
Assets:				
Cash and cash equivalents	\$ 16,006	16,006	—	—
Trading securities:				
Equity securities	97,322	97,322	—	—
Total assets at fair value	\$ 113,328	113,328	—	—

(iii) *Investment Categories*

Fixed Income

The strategic role of fixed income securities is to diversify the Plan's equity exposure by investing in fixed income securities that exhibit a low correlation to equities and lower volatility; maintain a diversified exposure within the U.S. fixed income market using multimanager portfolio strategies; and achieve returns in excess of passive indices through the use of active investment managers and strategies. It also provides effective diversification against equities and a stable level of cash flow.

Equity Securities

The strategic role of equity securities (domestic and international) is to provide higher expected market returns of the major asset classes within the applicable markets and maintain a diversified exposure within the portfolio.

(c) *Defined Contribution Plans*

MHS currently maintains three defined contribution plans including the MHS 401(a) Retirement Account Plan (RAP), the MHS 403(b) Employee Savings Plan, and the MHS 401(k) Plan.

Yakima currently maintains two defined contribution plans including a 403(b) tax-deferred annuity plan and a 401(k) plan, which is a safe harbor plan. The 403(b) plan was frozen to contributions as of January 1, 2020. The 401(k) plan is funded by both Yakima and employee contributions.

Overlake currently maintains a defined contribution plan, the Overlake Hospital Medical Center 403(b) Retirement Plan. Other consolidated entities maintain immaterial defined contribution plans.

The funding for all defined contribution plans is based on certain percentages of the employees' base pay and/or a percentage of their deferred contributions. Total contributions to the defined-contribution

plans for 2024 and 2023 were approximately \$78,000 and \$65,000, respectively, which were included with employee benefits in the accompanying consolidated statements of operations.

(d) Other

In addition to the defined benefit and defined contribution plans as described above, MHS and Yakima also maintain several deferred compensation arrangements for the benefit of eligible employees. Substantially all amounts that are deferred under these arrangements are held in trust until such time as these funds become payable to the participating employees.

(13) Professional Liability

MHS maintains a self-insurance program for professional liability with excess coverage over self-insured retention limits provided by commercial insurance carriers. MHS has recorded a liability as of December 31, 2024 and 2023, which comprises estimated deductibles and retentions for known claims at year-end and a liability for incurred but not reported claims based on an actuarially determined estimate.

MHS utilizes a wholly owned insurance captive, Commencement Re (the Captive). On September 15, 2022, the Captive took on the risk to self-insure and reinsure certain layers of professional and general liability risk from MHS. The Captive covers all consolidated entities excluding Overlake, which is insured separately through a commercial carrier. Overlake maintains claims-made professional liability insurance coverage through a commercial carrier.

At December 31, 2024 and 2023, the estimated gross professional liability (including current and long-term portions) was \$222,178 and \$156,125, respectively. The current portion is included in accounts payable and accrued expenses, and the remainder is included in other liabilities, net in the accompanying consolidated balance sheets. MHS has recorded a receivable for amounts to be received from the excess insurance carriers for their portion of the claims (including current and long-term portions) of \$12,198 and \$15,100 as of December 31, 2024 and 2023, respectively. The current amount is included in other current assets, net, and the remainder is included in other assets, net in the accompanying consolidated balance sheets.

(14) Workers' Compensation and Employee Health Benefit Programs

MHS maintains a self-insurance program for workers' compensation with excess coverage over self-insured retention limits provided by commercial insurance carriers. This program covers all consolidated entities excluding Overlake, which maintains a separate self-insurance program.

MHS has recorded a liability based on an actuarial estimate of future claims payments. At December 31, 2024 and 2023, the estimated net liability based on future claims cost totaled \$27,615 and \$21,711, respectively. The gross liabilities (including both current and long-term portions) total \$31,131 and \$24,738 as of December 31, 2024 and 2023, respectively. The long-term amounts are included in other liabilities, net, and the current portions are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. These liabilities are secured by a letter of credit with the State of Washington. MHS has recorded a receivable for amounts to be received from excess insurance carriers of \$3,516 and \$3,028 as of December 31, 2024 and 2023, respectively, which is included with other current assets, net and other assets, net for the respective estimated current and long-term portions.

MHS maintains a self-insurance program for employee medical and dental insurance, covering all consolidated entities in 2024 excluding Overlake, which maintains a separate self-insurance program. Employees can elect to be included in the self-insurance plan as a part of their fringe benefit package. Yakima maintained a separate self-insurance program for employee medical and dental insurance during 2023. Yakima employees were moved into the MHS program as of January 1, 2024. Premiums deducted from employees' wages are used in paying a portion of members' medical claims. The estimated liability for claims in 2024 and 2023 was \$36,271 and \$25,346, respectively. These amounts are included in accrued compensation and related liabilities in the accompanying consolidated balance sheets.

(15) Long-Term Debt

With the addition of Overlake in 2024, the consolidated balance sheet as of December 31, 2024 includes three Obligated Groups as of December 31, 2024: MultiCare Health System (MultiCare), MultiCare Immaterial Affiliates (Immaterial Affiliates), and Overlake Hospital Medical Center (Overlake). Long-term debt consists of the following at December 31, 2024 and 2023:

Obligated Group	Series		2024	2023
MultiCare	2024 Term Loan	\$	130,170	—
MultiCare	WHCFA Revenue bonds, 2022A		49,985	49,985
MultiCare	WHCFA Revenue bonds, 2022B		108,145	108,145
MultiCare	WHCFA Revenue bonds, 2022C		80,000	80,000
MultiCare	WHCFA Revenue bonds, 2022D		—	130,170
MultiCare	WHCFA Revenue bonds, 2022 Taxable Private Placement		430,000	430,000
MultiCare	2020 Taxable bonds		300,000	300,000
MultiCare	OCED financing		65,824	75,642
MultiCare	WHCFA Revenue bonds, 2017 Series A and B		306,105	310,415
MultiCare	WHCFA Revenue bonds, 2017 Series C and D		111,010	111,010
MultiCare	WHCFA Revenue bonds, 2015 Series A and B		314,265	329,345
Overlake	WHCFA Revenue bonds, 2022 Series		50,555	—
Overlake	WHCFA Revenue bonds, 2017 Series A and B		162,010	—
Overlake	WHCFA Revenue bonds, 2014 Series		35,470	—
Immaterial Affiliates	Other		46,366	17,005
			2,189,905	1,941,717
Adjusted for:				
	Current portion		(27,863)	(22,411)
	Bond premiums, discounts, and debt issuance costs		51,789	42,643
	Long-term debt, net of current portion	\$	2,213,831	1,961,949
	OCED Financing		65,824	75,642

(a) 2024 Term Loan (MultiCare)

In December 2024, MHS issued a \$130,170 term loan to replace the 2022D Series bonds, with principal due in full in December 2031. The loan bears a fixed interest rate of 4.78% with interest only payments made semiannually in February and August of each year.

(b) Washington Health Care Facility Authority (WHCFA) Revenue Bonds, 2022A (MultiCare)

In August 2022, MHS issued \$49,985 of 2022 Series A bonds. These bonds were issued as variable rate tax exempt private placement debt with Royal Bank of Canada, with principal payments ranging from \$1,845 in 2040 to final payment of \$20,365 in 2044. The interest rates reset monthly and are based on SIFMA plus a spread.

(c) WHCFA Revenue Bonds, 2022B (MultiCare)

In August 2022, MHS issued \$108,145 of 2022 Series B bonds. These bonds were issued as variable rate tax exempt private placement debt with PNC Bank, NA. Principal payments range from \$7,035 in 2040 to \$22,085 in 2045, with a final payment of \$19,715 in 2046 with interest payable semi-annually in February and August, based on SOFR plus a spread.

(d) WHCFA Revenue Bonds, 2022C (MultiCare)

In December 2022, MHS issued \$80,000 of 2022 Series C bonds. These bonds were issued as variable rate tax exempt private placement debt with Banc of America Preferred Funding Corp. The principal is due in full in 2047 with monthly interest payments based on SIFMA plus a spread.

(e) WHCFA Revenue Bonds, 2022D (MultiCare)

In December 2022, MHS issued \$130,170 of 2022 Series D bonds. In September 2024, these bonds were paid in full and replaced by the 2024 Term Loan. These bonds were issued as variable rate taxable private placement debt with Bank of America, NA. The principal was due in full in 2047 with monthly interest payments based on SOFR plus a spread.

(f) 2022 Taxable Private Placement (MultiCare)

In August 2022, MHS issued \$430,000 of Series 2022 taxable private placement bonds. The bonds were acquired by various private investors. Included in the issuance are \$130,000 in bonds bearing 4.48% fixed rate interest with principal due in full in 2037, and \$300,000 in bonds bearing 4.75% fixed rate interest with principal due in full in 2052.

(g) 2020 Taxable Bonds (MultiCare)

In July 2020, MHS issued \$300,000 of taxable 2020 series bonds. These bonds were issued as fixed rate bonds that bear interest of 2.803%. The principal of \$300,000 is due in 2050, with interest only payments made semiannually in February and August of each year.

(h) OCED Financing (MultiCare)

In June 2020, MHS finalized a sale-leaseback transaction for four off-campus emergency departments (OCED) with total cash proceeds received of \$61,794. In October 2022, MHS finalized a

sale-leaseback for three additional OCEDs. Due to the specific terms of the agreements, the leases qualified as financing type leases. The agreements did not meet the criteria for sale-leaseback accounting treatment and instead are considered a financing liability. For the agreement finalized in 2022, cash proceeds are not received until construction commences and repayment of the financing liabilities do not start until construction is completed. Construction of the first OCED was completed in December 2023. The 2020 agreement bears an implicit interest rate of 4.64% while the 2022 agreement bears an implicit interest rate of 5.90%. Total annual principal payments range from \$1,856 in 2043 to \$6,431 in 2039.

(i) WHCFA Revenue Bonds 2017 Series A and B (MultiCare)

In November 2017, MHS issued \$333,970 of 2017 Series A and B bonds. These bonds were issued as fixed rate bonds that bear interest ranging from 3.0% to 5.0%. Annual principal payments range from \$4,610 in 2024 to \$62,410 in 2047.

(j) WHCFA Revenue Bonds 2017 Series C, D, and E (MultiCare)

In November 2017, MHS entered into a \$111,010 variable rate private placement agreement (Series C and D) with JPMorgan Chase Bank, National Association. The first annual principal payment of \$55,505 is due in 2048, with a final principal payment of \$55,505 in 2049. The interest rates reset monthly and are based on SOFR plus a spread.

(k) WHCFA Revenue Bonds 2015 Series A and B (MultiCare)

In April 2015, MHS issued \$373,390 of 2015 Series A and B bonds. Series A and B bonds were issued as fixed rate bonds that bear interest ranging from 2.0% to 5.0%. Annual principal payments range from \$4,295 in 2040 to \$24,085 in 2034 with a final payment of \$8,860 due in 2045.

(l) WHCFA Revenue Bonds, 2022 Series (Overlake)

In December 2022, Overlake issued \$50,555 of 2022 Series bonds. The bonds were issued as variable rate bonds. Annual principal payments range from \$14,360 in 2042 to \$18,405 in 2044.

(m) WHCFA Revenue Bonds, 2017 Series A and B (Overlake)

In December 2017, Overlake issued \$176,785 of 2017 Series A and B bonds. The bonds were issued as fixed rate bonds that bear interest ranging from 4.0% to 5.0%. Annual principal payments range from \$5,705 in 2025 to \$16,215 in 2041 and a final principal payment of \$2,865 in 2042.

(n) WHCFA Revenue Bonds, 2014 Series (Overlake)

In August 2014, Overlake issued \$53,495 of 2014 Series bonds. The bonds were issued as fixed rate bonds that bear interest ranging from 4.0% to 5.0%. Annual principal payments range from \$1,830 in 2025 to \$3,370 in 2038.

(o) Other (Immaterial Affiliates)

The other debt listed is primarily made up of debt held by Navos. Of the outstanding debt at December 31, 2024, \$16,260 is associated with certain buildings and other capital assets operated by Navos and is subject to provisions whereby the debt will be forgiven upon compliance with those provisions. These provisions state that Navos maintains the assets that were built or purchased with these notes and maintains their usage when the promissory note was signed for the length specified. If these provisions are not met, the note must be repaid based on the terms of the agreement. The forgivable debt is subject to a forgiveness provision in years 2028 through 2068.

(p) Line of Credit (MultiCare)

In October 2022, MHS entered into a \$200,000 revolving credit agreement with JPMorgan Chase Bank, NA. In October 2024, the agreement was amended to \$100,000. The line of credit matures July 2025 and bears interest at a variable rate based upon SOFR. The balance outstanding was \$63,000 as of December 31, 2024, and \$62,935 as of December 31, 2023.

Revenue bonds issued by MHS through WHCFA are subject to applicable bond indenture agreements, which require that MHS satisfy certain measures of financial performance as long as the bonds are outstanding. These measures include a minimum debt service coverage ratio and a condition that the bonds are secured by a gross receivables pledge. Based on management's assessment of these requirements, MHS is in compliance with these covenants at December 31, 2024 and 2023.

Each fixed-rate revenue bond requires semiannual interest payments on February 15 and August 15 of each year until maturity. These bonds are subject to early redemption by MHS on or after certain specific dates and at certain specific redemption prices as outlined in each bond agreement.

Principal maturities on long-term debt are as follows:

Year ending December 31:		
2025	\$	27,863
2026		31,360
2027		32,931
2028		34,673
2029		36,325
Thereafter		<u>2,026,753</u>
	\$	<u><u>2,189,905</u></u>

A summary of interest costs is as follows during the years ended December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Interest cost:		
Charged to operations	\$ 83,069	81,941
Amortization of bond premiums, discounts, and issuance costs	(9,146)	(2,226)
Capitalized	<u>612</u>	<u>2,486</u>
	\$ <u>74,535</u>	<u>82,201</u>

(16) Commitments and Contingencies

Approximately 42% of MHS employees were covered under collective bargaining agreements as of December 31, 2024. These employees provide nursing, nursing support, pharmacy, imaging, lab, inpatient and outpatient therapies, housekeeping, food, laundry, maintenance, and inventory/distribution services to MHS. Collective bargaining agreements have various expiration dates extending through March 2028.

(17) Leases

(a) Lessee

MHS leases various equipment and facilities under noncancelable operating and finance leases. Lease terms for noncancelable operating leases range from 1 to 20 years, and existing leases have expiration dates through 2042. Lease terms for finance leases range from 1 to 21 years, and existing leases have expiration dates through 2040.

The components of lease cost for the years ended December 31, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Operating lease cost	\$ 49,447	42,050
Finance lease cost:		
Amortization of right-of-use assets	7,629	5,922
Interest on lease liabilities	<u>928</u>	<u>819</u>
Total finance lease cost	8,557	6,741
Short term lease cost	1,041	751
Variable lease cost	34	—
Sublease income	<u>(287)</u>	<u>(595)</u>
Total lease cost	\$ <u>58,792</u>	<u>48,947</u>

Other information related to leases as of December 31, 2024 and 2023 was as follows:

	2024	2023
Weighted average remaining lease term (years):		
Operating leases	8.1	8.6
Finance leases	5.3	5.5
Weighted average discount rate:		
Operating leases	4.0 %	4.0 %
Finance leases	4.4	4.4
	2024	2023
Operating cash flows from operating leases	\$ (47,885)	(39,882)
Operating cash flows from finance leases	(928)	(819)
Financing cash flows from finance leases	(7,499)	(5,782)
Right-of-use assets obtained in exchange for new operating lease liabilities	66,242	62,205
Right-of-use assets obtained in exchange for new finance lease liabilities	6,828	7,676

Maturities of lease liabilities under noncancelable leases as of December 31, 2024 are as follows:

	Operating leases	Finance leases	Total
For year ended December 31:			
2025	\$ 59,991	7,239	67,230
2026	50,895	4,520	55,415
2027	42,250	3,799	46,049
2028	37,989	2,709	40,698
2029	29,635	971	30,606
Thereafter	112,050	3,124	115,174
Total undiscounted lease payments	332,810	22,362	355,172
Less present value discount	(48,796)	(2,422)	(51,218)
Total lease liabilities	\$ 284,014	19,940	303,954

(b) Lessor

MHS leases a building to the Alliance for South Sound Health, which does business under the name Wellfound Behavioral Health Hospital (Wellfound). Wellfound is a related party owned 50 percent by

MHS. The leased building is owned solely by MHS and is the only asset that MHS leases out as a lessor. The lease has a 20-year initial lease term, with four 5-year extension options. Due to the related party nature of the lease, MHS considers it reasonably certain that Wellfound will exercise its four lease renewal options, and as such, treats the lease as a 40-year lease. There is no purchase option stated in the lease contract. MHS has determined that the lease is a sales-type financing lease, since the expected lease term spans a major portion of the useful life of the building. The net investment in this lease was \$20,115 and \$22,459 at December 31, 2024 and 2023, respectively, and is included in other assets, net on the consolidated balance sheets.

Revenue from leases for the years ended December 31, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Interest income on net investment in finance leases	\$ 1,012	1,022
Variable lease income	<u>28</u>	<u>28</u>
Total lease income	<u>\$ 1,040</u>	<u>1,050</u>

Future lease payments receivable as of December 31, 2024 are as follows:

Year ended December 31:	
2025	\$ 1,227
2026	1,227
2027	1,227
2028	1,227
2029	1,227
Thereafter	<u>35,991</u>
Total lease payments to be received	42,126
Less unearned interest income	<u>(22,011)</u>
Net investment in lease	<u>\$ 20,115</u>

(18) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following specified purposes at December 31, 2024 and 2023:

	2024	2023
Healthcare services	\$ 82,760	105,652
Endowment funds, perpetual trusts and related receivables	100,338	71,548
Purchase of property, plant and equipment	34,071	79,602
Indigent care	4,974	2,499
Health education	2,965	1,360
Total net assets with donor restrictions	<u>\$ 225,108</u>	<u>260,661</u>

(19) Endowment Funds

MHS' endowments consist of over 100 individual funds established for a variety of purposes. They include both endowment funds with donor restrictions and funds designated without donor restrictions by the board of directors of its foundations to function as endowments (board-designated endowments). Net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions and nature of restrictions, if any.

The following tables present MHS' endowment net asset composition as well as associated changes therein:

	Board designated without donor restrictions	Funds with donor restrictions	Total
Endowment net assets, December 31, 2022	\$ 2,764	46,319	49,083
Investment return:			
Investment income	72	933	1,005
Net appreciation – realized and unrealized	334	5,850	6,184
Total investment return	406	6,783	7,189
Contributions	—	18,188	18,188
Appropriation of endowment assets for expenditure	(1,198)	(29,455)	(30,653)
Endowment net assets, December 31, 2023	1,972	41,835	43,807
Investment return:			
Investment income	551	2,274	2,825
Net (depreciation) appreciation realized and unrealized	(454)	178	(276)
Total investment return	97	2,452	2,549
Contributions	6,572	19,110	25,682
Appropriation of endowment assets for expenditure	(228)	(534)	(762)
Endowment net assets, December 31, 2024	\$ 8,413	62,863	71,276

Perpetual trusts that are held and managed by third party trustees are recorded as net assets with donor restrictions on the consolidated balance sheets; however, they are not included as endowment net assets with donor restrictions in the above presentation. Those perpetual trusts totaled \$7,920 and \$18,698, respectively, as of December 31, 2024 and 2023. Also excluded from the presentation of endowment net assets with donor restrictions above are pledge receivables and other totaling \$2,010 and \$4,020, respectively, as of December 31, 2024 and 2023.

(a) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level of the original gifts and the amounts of subsequent donations accumulated at the funds. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in net assets with donor restrictions. There were no funds with deficiencies in 2024 or 2023.

(b) Investment Policy – Including Return Objectives and Strategies to Achieve Objectives

The endowment assets are invested in an investment portfolio, which include those assets of donor restricted funds that MHS must hold in perpetuity as well as all other foundation-related investment assets. MHS has adopted an investment policy for the foundation investments that intends to provide income to support the spending policy while seeking to maintain the purchasing power of the endowment assets. To satisfy its long-term rate of return objectives, MHS relies on a total return strategy in which investment returns are achieved through both capital appreciation and interest and dividend income. MHS uses a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. There are some donor restricted funds that are held separately from MHS' pooled investments. These endowments are invested by donors in manners to provide funding for specific purposes as determined by donors.

(c) Spending Policy

In order to provide a stable and consistent level of funding for programs and services supported by the endowments, the foundations have determined that allowing an annual spending rate of the endowment's average account value is prudent. In establishing the spending policies, the foundations considered among other things, the expected total return on its endowments, effect of inflation, duration of the endowments to achieve its objective of maintaining the purchasing power of the endowment assets held in perpetuity, as well as to provide additional growth through new gifts and investment returns.

(20) Functional Expenses

MHS provides inpatient and outpatient services, physician services, home health services, and fundraising activities. Certain categories of expenses are attributable to programs and support services. These included salaries and wages, depreciation and amortization and other expenses. Costs are allocated based on cost allocation methods depending on the allocable expense, including square footage, time utilization and percentage of gross charges. Expenses related to providing these services are as follows for the years ended December 31, 2024 and 2023:

2024					
	Program services			Support services	Total
	Hospitals and related services	Clinics and urgent care centers	Retail and other services	Corporate and support services	
Salaries and wages	\$ 1,787,221	576,803	204,379	283,611	2,852,014
Employee benefits	19,059	87,317	49,626	255,173	411,175
Supplies	753,328	48,097	158,754	10,492	970,671
Purchased services	211,649	82,063	72,794	194,497	561,003
Professional fees	190,892	4,111	25,636	37,214	257,853
Depreciation and amortization	115,307	14,613	13,283	27,992	171,195
Interest	78,171	71	212	4,615	83,069
Other	351,868	60,889	105,976	150,046	668,779
	<u>\$ 3,507,495</u>	<u>873,964</u>	<u>630,660</u>	<u>963,640</u>	<u>5,975,759</u>
2023					
	Program services			Support services	Total
	Hospitals and related services	Clinics and urgent care centers	Retail and other services	Corporate and support services	
Salaries and wages	\$ 1,566,478	510,975	162,278	279,047	2,518,778
Employee benefits	159,185	78,846	40,516	102,520	381,067
Supplies	630,578	47,346	124,610	5,171	807,705
Purchased services	184,355	69,179	51,253	181,244	486,031
Professional fees	136,472	20,324	14,389	27,504	198,689
Depreciation and amortization	110,864	13,849	12,005	26,549	163,267
Interest	69,347	818	77	11,699	81,941
Other	241,701	33,873	140,666	83,768	500,008
	<u>\$ 3,098,980</u>	<u>775,210</u>	<u>545,794</u>	<u>717,502</u>	<u>5,137,486</u>

(21) Litigation and Regulatory Environment

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in the imposition of significant fines and penalties, significant repayments for patient services previously billed, and/or expulsion from government healthcare programs. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

MHS is also involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect to MHS' financial position.

(22) Subsequent Events

MHS has evaluated the subsequent events through March 26, 2025, the date at which the consolidated financial statements were issued and has included all necessary adjustments and disclosures.

MULTICARE HEALTH SYSTEM

Supplemental Schedule – Consolidating Balance Sheet Information

December 31, 2024

(In thousands)

Assets	MultiCare and immaterial affiliates	Overlake Hospital Medical Center	Consolidated
Current assets:			
Cash and cash equivalents	\$ 620,230	21,414	641,644
Accounts receivable	711,510	112,297	823,807
Supplies inventory	67,797	23,773	91,570
Other current assets, net	236,308	32,624	268,932
Total current assets	1,635,845	190,108	1,825,953
Donor restricted assets held for long-term purposes	132,192	35,982	168,174
Investments	2,017,256	251,777	2,269,033
Property, plant, and equipment, net	2,603,718	324,065	2,927,783
Right-of-use operating lease asset, net	238,321	29,894	268,215
Right-of-use financing lease asset, net	18,867	—	18,867
Goodwill and intangible assets, net	258,814	1,767	260,581
Other assets, net	451,017	20,719	471,736
Total assets	\$ 7,356,029	854,313	8,210,342
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 415,703	51,823	467,526
Accrued compensation and related liabilities	467,256	75,403	542,659
Accrued interest payable	31,572	4,897	36,469
Line of credit	63,000	—	63,000
Current portion of right-of-use operating lease liability	51,917	8,074	59,991
Current portion of right-of-use financing lease liability	7,239	—	7,239
Current portion of long-term debt	20,328	7,535	27,863
Total current liabilities	1,057,015	147,732	1,204,747
Right-of-use operating lease liability, net of current portion	199,384	24,639	224,023
Right-of-use financing lease liability, net of current portion	12,701	—	12,701
Long-term debt, net of current portion	1,961,914	251,917	2,213,831
Other liabilities, net	365,262	30,718	395,980
Total liabilities	3,596,276	455,006	4,051,282
Net assets:			
Without donor restrictions	3,557,114	376,838	3,933,952
With donor restrictions	202,639	22,469	225,108
Total net assets	3,759,753	399,307	4,159,060
Total liabilities and net assets	\$ 7,356,029	854,313	8,210,342

See accompanying independent auditors' report.

MULTICARE HEALTH SYSTEM

Supplemental Schedule – Consolidating Statement of Operations

Year ended December 31, 2024

(In thousands)

	MultiCare and immaterial affiliates	Overlake Hospital Medical Center	Consolidated
Revenues, gains, and other support without donor restrictions:			
Patient service revenue	\$ 5,296,855	200,023	5,496,878
Other operating revenue	347,729	7,445	355,174
Net assets released from restrictions for operations	6,006	1,188	7,194
Total revenues, gains, and other support without donor restrictions	<u>5,650,590</u>	<u>208,656</u>	<u>5,859,246</u>
Expenses:			
Salaries and wages	2,741,777	110,237	2,852,014
Employee benefits	386,373	24,802	411,175
Supplies	931,244	39,427	970,671
Purchased services	545,708	15,295	561,003
Professional fees	251,606	6,247	257,853
Depreciation and amortization	164,709	6,486	171,195
Interest	80,094	2,975	83,069
Other	649,665	19,114	668,779
Total expenses	<u>5,751,176</u>	<u>224,582</u>	<u>5,975,759</u>
Deficit of revenues over expenses from operations	<u>(100,586)</u>	<u>(15,926)</u>	<u>(116,513)</u>
Other income (loss):			
Investment income (loss)	214,783	(3,931)	210,852
Gain on interest rate swaps, net	19,114	—	19,114
Inherent contribution	—	395,923	395,923
Other income, net	4,819	12	4,831
Total other income (loss), net	<u>238,716</u>	<u>392,004</u>	<u>630,720</u>
Excess of revenues over expenses	<u>\$ 138,130</u>	<u>376,078</u>	<u>514,207</u>

See accompanying notes to consolidated financial statements.



MULTICARE HEALTH SYSTEM

Consolidated Financial Statements

December 31, 2023 and 2022

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
MultiCare Health System:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of MultiCare Health System (the Company)(a Washington nonprofit corporation), which comprise the consolidated balance sheets as of December 31, 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 the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

KPMG LLP

Seattle, Washington
March 20, 2024

MULTICARE HEALTH SYSTEM

Consolidated Balance Sheets

December 31, 2023 and 2022

(In thousands)

Assets	2023	2022
Current assets:		
Cash and cash equivalents	\$ 512,076	542,067
Accounts receivable	659,925	511,727
Supplies inventory	70,636	60,070
Other current assets, net	244,617	165,586
Total current assets	1,487,254	1,279,450
Donor restricted assets held for long-term purposes	151,563	119,526
Investments	1,996,970	1,968,205
Property, plant, and equipment, net	2,469,467	2,109,253
Right-of-use operating lease asset, net	235,679	169,823
Right-of-use financing lease asset, net	18,003	16,798
Goodwill and intangible assets, net	259,830	253,274
Other assets, net	401,519	329,808
Total assets	\$ 7,020,285	6,246,137
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 409,309	326,664
Accrued compensation and related liabilities	420,730	329,672
Accrued interest payable	27,333	23,643
Line of credit	62,935	—
Current portion of right-of-use operating lease liability	37,412	29,908
Current portion of right-of-use financing lease liability	6,443	4,965
Current portion of long-term debt	22,411	18,496
Total current liabilities	986,573	733,348
Interest rate swap liabilities	6,425	9,470
Right-of-use operating lease liability, net of current portion	208,545	147,116
Right-of-use financing lease liability, net of current portion	12,504	12,491
Long-term debt, net of current portion	1,961,949	1,972,137
Other liabilities, net	247,573	231,045
Total liabilities	3,423,569	3,105,607
Commitments and contingencies (note 15)		
Net assets:		
Controlling interest	3,301,130	2,930,546
Noncontrolling interest	34,925	34,471
Without donor restrictions	3,336,055	2,965,017
With donor restrictions	260,661	175,513
Total net assets	3,596,716	3,140,530
Total liabilities and net assets	\$ 7,020,285	6,246,137

See accompanying notes to consolidated financial statements.

MULTICARE HEALTH SYSTEM
Consolidated Statements of Operations
Years ended December 31, 2023 and 2022
(In thousands)

	<u>2023</u>	<u>2022</u>
Revenues, gains, and other support without donor restrictions:		
Patient service revenue	\$ 4,521,328	3,765,888
Other operating revenue	417,619	231,429
Net assets released from restrictions for operations	10,068	6,382
Total revenues, gains, and other support without donor restrictions	<u>4,949,015</u>	<u>4,003,699</u>
Expenses:		
Salaries and wages	2,518,778	2,199,265
Employee benefits	381,067	297,613
Supplies	807,705	658,470
Purchased services	486,031	396,747
Depreciation and amortization	163,267	140,892
Interest	81,941	56,842
Other	698,697	541,246
Total expenses	<u>5,137,486</u>	<u>4,291,075</u>
Deficit of revenues over expenses from operations	<u>(188,471)</u>	<u>(287,376)</u>
Other income (loss):		
Investment income (loss)	282,866	(344,301)
Gain on interest rate swaps, net	14,410	127,688
Inherent contribution	293,012	—
Other income (loss), net	9,382	(11,047)
Total other income (loss), net	<u>599,670</u>	<u>(227,660)</u>
Excess (deficit) of revenues over expenses	<u>\$ 411,199</u>	<u>(515,036)</u>

See accompanying notes to consolidated financial statements.

MULTICARE HEALTH SYSTEM

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2023 and 2022

(In thousands)

	Without donor restrictions		With donor restrictions	Total net assets
	Controlling interests	Noncontrolling interests		
Balance, December 31, 2021	\$ 3,430,009	—	176,742	3,606,751
Deficit of revenues over expenses	(515,036)	—	—	(515,036)
Changes in pension assets	(15,508)	—	—	(15,508)
Changes from noncontrolling interest	—	34,471	—	34,471
Contributions and other	26,539	—	14,875	41,414
Net assets released from restriction for capital acquisitions	4,542	—	(4,542)	—
Net assets released from restriction for operations	—	—	(6,382)	(6,382)
Loss on investments	—	—	(611)	(611)
Decrease in assets held in trust by others	—	—	(4,569)	(4,569)
Change in net assets	(499,463)	34,471	(1,229)	(466,221)
Balance, December 31, 2022	2,930,546	34,471	175,513	3,140,530
Excess of revenues over expenses	349,718	61,481	—	411,199
Changes in pension assets	(158)	—	—	(158)
Changes from noncontrolling interest	—	(61,027)	—	(61,027)
Contributions and other	20,582	—	65,863	86,445
Net assets assumed in affiliation	—	—	19,657	19,657
Net assets released from restriction for capital acquisitions	442	—	(442)	—
Net assets released from restriction for operations	—	—	(10,068)	(10,068)
Gain on investments	—	—	12,095	12,095
Decrease in assets held in trust by others	—	—	(1,957)	(1,957)
Change in net assets	370,584	454	85,148	456,186
Balance, December 31, 2023	\$ 3,301,130	34,925	260,661	3,596,716

See accompanying notes to consolidated financial statements.

MULTICARE HEALTH SYSTEM
Consolidated Statements of Cash Flows
Years ended December 31, 2023 and 2022
(In thousands)

	2023	2022
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 456,186	(466,221)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	163,267	140,892
Amortization of bond premiums, discounts, and issuance costs	(4,120)	(2,163)
Net realized and unrealized gains on investments	(222,484)	378,740
Change in fair value of interest rate swap	(5,970)	(133,126)
Gain on disposal of assets, net	(34,027)	(3,009)
Loss on joint ventures, net	4,371	7,032
Net assets assumed from affiliation	(312,669)	—
Restricted contributions for long-term purposes	(24,336)	(4,968)
Changes in operating assets and liabilities:		
Accounts receivable	(78,278)	(51,158)
Supplies inventory and other current assets	(72,922)	(43,673)
Right-of-use lease asset	57,252	35,690
Other assets, net	40,427	80,665
Accounts payable and accrued expenses and accrued interest payable	41,947	27,421
Accrued compensation and related liabilities	60,582	(14,765)
Right-of-use lease liability	(34,518)	(30,021)
Other liabilities, net	14,918	21,842
Net cash provided by (used in) operating activities	<u>49,626</u>	<u>(56,822)</u>
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(294,860)	(237,295)
Proceeds from disposal of property, plant, and equipment	57,640	6,360
Cash obtained from affiliation	29,814	—
Purchase of additional ownership in PSW and OSS, net of cash received	—	(86,915)
Investments in joint ventures, net	(38,393)	(11,445)
Purchases of investments	(6,831,712)	(8,827,993)
Sales of investments	7,021,038	9,072,857
Change in donor trusts	(22,232)	(2,833)
Net cash used in investing activities	<u>(78,705)</u>	<u>(87,264)</u>
Cash flows from financing activities:		
Repayment of long-term debt	(82,401)	(415,646)
Proceeds from line of credit, net	62,935	—
Proceeds from bond issuance	—	798,300
Payment of debt issue expenses	—	(5,702)
Principal payments on finance lease obligations	(5,782)	(4,499)
Restricted contributions for long-term purposes	24,336	4,968
Net cash (used in) provided by financing activities	<u>(912)</u>	<u>377,421</u>
Net change in cash and cash equivalents	(29,991)	233,335
Cash and cash equivalents, beginning of year	542,067	308,732
Cash and cash equivalents, end of year	<u>\$ 512,076</u>	<u>542,067</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest, net of amount capitalized	\$ 77,251	52,258
Noncash activities:		
Increase (decrease) in deferred compensation plans	17,628	(11,750)
(Decrease) increase in accounts payable for purchases of property, plant, and equipment	(7,492)	9,301

See accompanying notes to consolidated financial statements.

(1) Nature of Organization and Summary of Significant Accounting Policies

(a) Organization Description

MultiCare Health System (MHS), a Washington nonprofit corporation, is an integrated healthcare delivery system providing inpatient, outpatient, and other healthcare services primarily to the residents of Pierce, King, Spokane, Thurston and Yakima Counties and, with respect to pediatric care, much of the southwest Washington region. As of December 31, 2023, MHS was licensed to operate 2,577 inpatient hospital beds, including 120 beds associated with a joint venture psychiatric hospital in Tacoma, Washington. MHS operates nine acute care facilities (Tacoma General Hospital, Good Samaritan Hospital, Allenmore Hospital, Mary Bridge Children's Hospital, Auburn Medical Center, Covington Hospital, Deaconess Hospital, Valley Hospital, Capital Medical Center and Yakima Memorial Hospital) and one behavioral health hospital (Navos). MHS also operates eight outpatient surgical sites, six free-standing emergency departments, home health, hospice, and multiple urgent care, primary care and multispecialty clinics located throughout the MHS service areas.

The consolidated financial statements include the operations of these facilities and services as well as those of four wholly owned subsidiaries (Greater Lakes Mental Healthcare, Medis, Inc., MultiCare Rehabilitation Specialists, P.C., and PNW PACE Partners, LLC), a wholly owned professional services organization supporting cardiovascular services at MHS (CHVI Professional Corp), a wholly owned professional services organization that employs providers for Yakima Memorial Hospital (Memorial Physicians, LLC), a wholly owned accountable care organization (MultiCare Connected Care), a wholly owned clinically integrated healthcare network (Central Washington Healthcare Partners, LLC dba SignalHealth), a leading population health company (Physicians of Southwest Washington), a physical therapy provider (Olympic Sports & Spine) and three fundraising foundations (Yakima Valley Memorial Hospital Charitable Foundation, Mary Bridge Children's Foundation and MultiCare Foundations, which is doing business as MultiCare Health Foundation, Good Samaritan Foundation, MultiCare South King Health Foundation, MultiCare Behavioral Health Foundation and MultiCare Inland Northwest Foundation).

On January 17, 2023, MHS completed its affiliation with Yakima Valley Memorial Hospital (Yakima) and became the sole corporate member. No consideration was exchanged as part of this transaction. Yakima operates an acute care facility, clinics and other services to the greater Yakima Valley region. The assets acquired and liabilities assumed were recorded at their estimated fair value as determined using standard asset appraisal techniques. The net assets assumed resulted in an inherent contribution of \$293,012 in the consolidated statements of operations. The remaining contribution of \$19,657 was restricted and is included in net assets assumed in affiliation with donor restrictions in the consolidated statements of changes in net assets. The following table summarizes the estimated fair values of assets acquired and liabilities assumed as of the acquisition date.

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash	\$	29,814
Accounts receivable		69,920
Other current assets		16,675
Land, buildings and equipment		252,096

Intangible asset and other assets	\$	105,830
Accounts payable, accrued compensation and other current liabilities		(112,076)
Long-term debt and other non-current liabilities		<u>(49,590)</u>
Total identifiable net assets assumed	\$	<u><u>312,669</u></u>

The following are the results of Yakima in 2023 that have been included in the consolidated statements of operations and consolidated statements of changes in net assets from the acquisition date for the year ended December 31, 2023:

Total operating revenues	\$	544,287
Change in net assets without restrictions		151,121
Change in net assets with restrictions		4,693

The following unaudited information presents MultiCare's results for the years ended December 31, 2023 and 2022, had the acquisition date been January 1, 2022 for the Yakima affiliation:

	<u>2023</u>	<u>2022</u>
	<u>(Unaudited)</u>	
Total operating revenues	\$ 4,949,015	4,524,987
Changes in net assets without donor restrictions	463,044	(504,189)
Changes in net assets with donor restrictions	85,148	5,394

On May 1, 2022, MHS completed the purchase of additional units of Physicians of Southwest Washington, LLC (PSW). Total consideration of this transaction was \$49,956 and increased MHS' ownership to 75%. As part of the consideration of this business combination, MHS equity interest was valued at its estimated fair value based on the cash consideration transferred using standard valuation techniques of the equity acquired. As a result of the remeasurement of MHS equity interest in PSW, a gain of \$9,105 was recognized within other operating revenue on the consolidated statement of operations for the year ended December 31, 2022. The assets acquired and liabilities assumed were recorded at their estimated fair value as determined using standard asset appraisal techniques. PSW is a leading population health company that provides management of risk contracts and manages a leading national accountable care organization (ACO) among other population health service offerings. The following table summarizes the total consideration and the estimated fair values of assets acquired and liabilities assumed as of the acquisition date along with the cash consideration paid.

Consideration:

Cash consideration transferred	\$	17,358
Fair value of MHS's equity interest before business combination		<u>32,598</u>
Total	\$	<u><u>49,956</u></u>

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash	\$	24,649
Other current assets		21,640
Land, buildings and equipment		647
Intangibles and other assets		1,799
Accounts payable, accrued compensation and other current liabilities		<u>(24,454)</u>
Total identifiable net assets assumed		24,281
Noncontrolling interest recognized		(23,731)
Goodwill		<u>49,406</u>
Total	\$	<u><u>49,956</u></u>

The following are the results of PSW in 2022 that have been included in the consolidated statement of operations and statement of changes in net assets from the acquisition date for the year ended December 31, 2022:

Total operating revenues	\$	36,305
Excess of revenue over expenses		1,394

The following unaudited information presents MHS's results for the year ended December 31, 2022, had the acquisition date been January 1, 2022 for the PSW acquisition:

		<u>2022</u> <u>(Unaudited)</u>
Total operating revenues	\$	4,010,866
Deficit of revenues over expenses		(513,848)

On September 22, 2022, MultiCare Rehabilitation Specialists, P.C. completed the purchase of additional units of Olympic Sports & Spine, PLLC (OSS). Total consideration of this transaction was \$36,959 and increased MHS's ownership to 80.16%. As part of the consideration of this business combination, MHS equity interest was valued at its estimated fair value based on the cash consideration transferred using standard valuation techniques of the equity acquired. As a result of the remeasurement of MHS equity interest in OSS, a loss of \$8,191 was recognized within other operating revenue on the consolidated statement of operations for the year ended December 31, 2022. The assets acquired and liabilities assumed were recorded at their estimated fair value as determined using standard asset appraisal techniques. OSS provides physical, occupational, and massage therapy services in the south Puget Sound area. The following table summarizes the total consideration and the

estimated fair values of assets acquired and liabilities assumed as of the acquisition date along with the cash consideration paid.

Consideration:

Cash consideration transferred	\$	7,377
Fair value of MHS's equity interest before business combination		<u>29,582</u>
Total	\$	<u><u>36,959</u></u>

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash	\$	5,988
Other current assets		6,167
Land, buildings and equipment		5,156
Intangibles and other assets		1,453
Accounts payable, accrued compensation and other current liabilities		<u>(2,409)</u>
Total identifiable net assets assumed		16,355
Noncontrolling interest recognized		(9,148)
Goodwill		<u>29,752</u>
Total	\$	<u><u>36,959</u></u>

The following are the results of OSS in 2022 that have been included in the consolidated statement of operations and statement of changes in net assets from the acquisition date for the year ended December 31, 2022:

Total operating revenues	\$	15,176
Excess of revenue over expenses		1,146

The following unaudited information presents MHS's results for the year ended December 31, 2022, had the acquisition date been January 1, 2021 for the OSS acquisition:

		<u>2022</u>
		<u>(Unaudited)</u>
Total operating revenues	\$	3,994,219
Deficit of revenues over expenses		(512,468)

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of MHS after elimination of all significant intercompany accounts and transactions.

(c) Use of Estimates

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

(d) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid instruments with maturities of three months or less at the date of purchase. Cash equivalents and investments that are held by outside investment managers or restricted per contractual or regulatory requirements are classified as investments on the consolidated balance sheets.

(e) Accounts Receivable

Accounts receivable are primarily comprised of amounts due for healthcare services from patients and third-party payors and are recorded net of amounts for contractual adjustments and implicit price concessions.

(f) Supplies Inventory

Supplies inventory consists of pharmaceutical, medical-surgical, and other supplies generally used in the operations of MHS. Supplies inventory is stated at lower of cost or net realizable value using the average cost method, except for pharmacy, which uses the first-in, first-out (FIFO) method. Obsolete and unusable items are expensed at the time such determination is made.

(g) Donor Restricted Assets

The majority of the donor restricted assets are invested in MHS' investments and are stated at fair value or estimated fair value. Donor restricted assets that are held separately from MHS' investments include perpetual trusts and charitable remainder unitrusts, where MHS is the beneficiary but not the trustee, that are invested in mutual funds, fixed income securities, and equity securities. Those with readily determinable fair values are stated at fair value. Those investments for which quoted market prices are not readily determinable are carried at values provided by the respective investment managers or trustees, which management believes approximates fair value.

Charitable gift annuities, which are included in donor restricted assets, totaled \$1,947 and \$1,749 at December 31, 2023 and 2022, respectively. MHS has recorded a corresponding payable of \$1,406 and \$1,301 at December 31, 2023 and 2022, respectively, to pay for estimated future obligations to beneficiaries. The current portion of these obligations is included in accounts payable and accrued expenses and the long-term portions are included in other liabilities, net in the accompanying consolidated balance sheets. According to Washington State law, MHS, as a distinct legal entity holding charitable gift annuities, is required to maintain unrestricted net assets of at least \$500, which MHS has done for each of the periods presented.

(h) Investments

MHS accounts for its investment portfolio as a trading portfolio, therefore, investments in fixed income securities, equity securities, and commingled trusts with a readily determinable fair value are recorded at fair value, which are determined based on quoted market prices or prices with observable inputs obtained from national securities exchanges or similar sources. Other investments, including limited partnerships, commingled real estate trust funds, limited liability partnerships, and hedge funds are carried at net asset value (NAV) provided by the respective investment managers, which management believes approximates fair value. Valuations provided by investment managers consider variables such as valuation and financial performance of underlying investments, quoted market prices for similar securities, recent sale prices of underlying investments, and other pertinent information. Management reviews the valuations provided by investment managers and believes that the carrying values of these financial instruments are reasonable estimates of fair value.

Realized gains and losses are recorded using the average cost method. Investment income or loss (including realized gains and losses on investments, change in unrealized gains or losses, interest, and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law.

(i) Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. Depreciation expense is computed using the straight-line method over the following estimated useful lives of the assets:

Buildings	5–80 years
Land improvements	8–20 years
Equipment	3–30 years

MHS capitalizes all software implementation costs that meet the criteria for capitalization, including those that relate to a service contract (e.g., hosting arrangement). The capitalized software implementation costs are reflected within property, plant and equipment in the consolidated balance sheets. These costs are amortized together with the costs of the related software license; however, the implementation costs related to a service arrangement are amortized over the term of the arrangement. The amortization period for all capitalized implementation costs is generally 10 years.

Maintenance and repairs are charged to operations as they occur. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Gains upon sale or retirement of property, plant, and equipment are included in other operating revenue whereas losses are included in other expenses. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of constructing those assets.

MHS assesses potential impairments to its long-lived assets as well as its intangible assets, as described below, when there is evidence that events or changes in circumstances indicate that an impairment has been incurred. These changes can include a deterioration in operating performance, a reduction in reimbursement rates from government or third-party payors or a change in business strategy. An impairment charge is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. In 2023 and 2022, there were no impairment charges.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(j) Leases

Management reviews contracts in order to identify leases and properly classify leases as either operating or financing. MHS is a lessee of various equipment and facilities under noncancelable operating and financing leases. Operating and financing right-of-use (ROU) liabilities are recognized based on the net present value of lease payments over the lease term at the commencement date of the lease and are reduced by payments made on each lease on the straight-line basis. Since most of the leases do not provide an implicit rate of return, MHS uses its incremental borrowing rate based on information available at the commencement date of the lease in determining the present value of lease payments. Generally, MHS cannot determine the interest rate implicit in the lease because it does not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, MHS generally uses its incremental borrowing rate as the discount rate for the lease. MHS' incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments using similar terms. Leases with an initial term of 12 months or less are not recorded on the balance sheet; rather, rent expense for these leases is recognized on a straight-line basis over the lease term, or when incurred if a month-to-month lease.

If a lease contains a renewal option at the commencement date and it is considered reasonably certain that the renewal option will be exercised by management to renew the lease, the renewal option payments are included in MHS' net minimum lease payments used to determine the right-of-use lease liabilities and related lease assets. All other renewal options are included in right-of-use lease liabilities and related lease assets when they are reasonably certain to be exercised.

All lease agreements generally require MHS to pay maintenance, repairs, property taxes and insurance costs, which are variable amounts based on actual costs incurred during each applicable period. Such costs are not included in the determination of the ROU lease liability or ROU lease asset. Variable lease cost also includes escalating rent payments that are not fixed at commencement but are based on an index that is determined in future periods over the lease term based on changes in the Consumer Price Index or other measure of cost inflation.

Variable lease payments associated with MHS' leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented in other expenses in the consolidated statement of operations and changes in net assets.

MHS has elected the practical expedient to not separate lease components from non-lease components related to its real estate leases.

(k) Goodwill and Intangible Assets

Goodwill is an asset representing the future economic benefits arising from the difference in the fair value of the business acquired and the fair value of the identifiable and intangible net assets acquired in a business combination. Indefinite-lived intangible assets are assets that are not amortized because there is no foreseeable limit to cash flows generated from them.

If it is more likely than not that goodwill is impaired, MHS records the amount that the carrying value exceeds the fair value as an impairment charge. Goodwill is not amortized and along with indefinite-lived intangible assets is evaluated at least annually for impairment. There were no impairment charges recognized during the years ended December 31, 2023 or 2022.

The following table summarizes the balances of goodwill and intangible assets at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Goodwill	\$ 232,085	232,085
Intangible assets, net of accumulated amortization of \$7,712 and \$7,035, respectively	<u>27,745</u>	<u>21,189</u>
Total	<u>\$ 259,830</u>	<u>253,274</u>

The balance sheet as of December 31, 2023 includes intangible assets recognized as part of the Yakima affiliation in the amount of \$7,696. The balance sheet as of December 31, 2022 includes goodwill recognized as part of the PSW and OSS transactions in the amounts of \$49,406 and \$29,752, respectively, and intangible assets recognized of \$1,719 and \$1,421, respectively.

Amortizing intangible assets are comprised of certificates of need, license agreements, trade names and lease arrangements, which all have finite useful lives. Amortization expense is recorded on a straight-line basis over the estimated useful life of the assets, which ranges from three to thirty years, associated with the nature of the intangible asset. Amortization expense was \$677 and \$1,474 for the years ended December 31, 2023 and 2022, respectively.

(l) *Investment in Joint Ventures*

MHS maintains ownership in certain joint ventures related to imaging, office buildings, behavioral health and other healthcare focused activities and accounts for these joint ventures under the equity method of accounting. As of December 31, 2023 and 2022, MHS held ownership interests in 27 and 26 joint ventures, respectively. Investment in joint ventures is included in other assets, net in the accompanying consolidated balance sheets. Loss on joint ventures for the years ended December 31, 2023 and 2022 were \$4,371 and \$7,032, respectively, associated with several joint ventures. Gains and losses are included in other operating revenue on the consolidated statements of operations.

(m) *Estimated Third-Party Payor Settlements*

Medicare cost reports are filed annually by MHS with the Medicare intermediary and are subject to audit and adjustment prior to settlement. Estimates of net settlements due to Medicare were \$7,646 and \$4,781 as of December 31, 2023 and 2022, respectively, and have been recorded within accounts payable and accrued expenses in the accompanying consolidated balance sheets. Third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, based upon the amount of the final settlements. Patient service revenue increased by \$2,865 in 2023 and decreased by \$148 in 2022 to reflect changes in the estimated Medicare settlements for prior years.

(n) *Interest Rate Swaps*

MHS maintains several interest rate swap agreements as a means of hedging its exposure to variable-based interest rates and fluctuations in cash flows as part of its overall interest rate risk management strategy. All MHS interest rate swaps are recorded at fair value. The accounting for changes in the fair value of these swaps depends on whether those had been designated as cash flow hedges. As of December 31, 2023 and 2022, none of MHS' interest rate swaps were designated as cash flow hedges and therefore, the changes in fair value are recognized and included in other income (loss) on the consolidated statements of operations. These swaps have notional amounts totaling approximately \$559,000 and expire starting in August 2027 through August 2049. During 2023, the interest rate swap agreements were amended to change the variable rate basis from LIBOR to SOFR due to the discontinuation of LIBOR. The majority of the swaps have the economic effect of fixing the SOFR-based variable interest rate on an equivalent amount of MHS' outstanding floating rate principal debt.

Under master netting provisions of the International Swap Dealers Association (ISDA) agreement with each of the counterparties, MHS is permitted to settle with the counterparties on a net basis. However, due to the nature of the specific swap arrangements in MHS' interest rate swap portfolio, the fair value of interest rate swap assets and swap liabilities are presented on a gross basis on the consolidated balance sheets.

(o) Net Assets with Donor Restrictions

Gifts are reported as support with donor restrictions if they are received with donor stipulations that restrict the use of the donated assets to a specific time or purpose or have been restricted by donors and are maintained by MHS in perpetuity. When restricted funds to be used for operations are expended for their restricted purposes or by the occurrence of the passage of time, these amounts are released from restrictions for operations and are classified as revenues, gains, and other support without donor restrictions. When restricted funds are expended for the acquisition of property, plant, and equipment, these amounts are recognized in net assets without donor restrictions as net assets released from restriction – capital acquisitions.

MHS applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, related to using the present value technique to measure fair value of pledges receivable. In accordance with ASC Topic 820, MHS has applied the expected present value technique to pledges received after January 1, 2009 that adjusts for a risk premium to take into account the risks inherent in those expected cash flows. Pledges of financial support are recorded as pledges receivable when unconditional pledges are made and are stated at net realizable value. Pledges are reported net of an allowance for uncollectible pledges and pledges to be collected in future years are reflected at a discounted value using a weighted average discount rate. As of December 31, 2023 and 2022, MHS has recorded \$26,678 and \$21,265, respectively, of net pledge receivables, which are included in donor-restricted assets in the accompanying consolidated balance sheets. As of December 31, 2023, \$15,886 of pledges are due in one year or less and \$10,792 in two to eight years.

(p) Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which MHS expects to receive in exchange for providing patient services. These amounts are due from patients, third-party payors, and others and include the variable consideration for retroactive adjustments to revenue due to final settlement of audits, reviews, and investigations. MHS bills the patient and third-party payors several days after the services are performed or when the patient is discharged from the facility, whichever is later.

(q) Hospital Safety Net Assessment

The State of Washington (the State) has a safety net assessment program involving Washington State hospitals to increase funding from other sources and obtain additional federal funds to support increased payments to providers for Medicaid services. In connection with this program, MHS recorded increases in patient service revenue of \$99,048 and \$89,946 for 2023 and 2022, respectively, and incurred assessments of \$68,134 and \$63,961 for 2023 and 2022, respectively, which were recorded in other operating expenses in the accompanying consolidated statements of operations. MHS has outstanding receivables of \$13,666 and \$17,287 associated with this program as of December 31, 2023 and 2022, respectively, which are included with accounts receivable on the consolidated balance sheets.

(r) *Uncompensated and Undercompensated Care*

MHS provides a variety of uncompensated and undercompensated healthcare services to the communities it serves within the purview of its mission. Because MHS does not pursue collection of amounts determined to qualify as uncompensated care, MHS has determined that it has provided implicit price concessions to uninsured patients and patients with other uninsured balances. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amount MHS expects to receive based on its historical collections from these patients. Patients who meet the criteria of MHS' uncompensated care policy are eligible to receive these services without charge or at an amount less than MHS' established rates. Such amounts determined to qualify as charity care are not reported as revenue. The State provides guidelines for charity care provided by hospitals in the state. Hospitals are recommended to provide full charity care to patients who meet 100% of the federal poverty guidelines and a lesser amount to patients who meet up to 200% of the federal poverty guidelines. MHS provides full charity care to patients who meet 300% of the federal poverty guidelines and also provides uncompensated care on a sliding scale for patients whose income is between 301% and 500% of the federal poverty guidelines for true self-pay patients and patients with deductibles and coinsurance amounts. The estimated cost of charity care provided was approximately \$67,000 and \$52,000 in 2023 and 2022, respectively. The estimated cost of uncompensated and undercompensated services provided to patients covered under Medicaid in excess of payments received was approximately \$496,000 and \$424,000 in 2023 and 2022, respectively. These cost estimates are calculated based on the overall ratio of costs to charges for MHS.

(s) *Other Operating Revenue*

Other operating revenue includes revenue from cafeteria sales, retail pharmacy, laboratory revenue from community providers, medical office rental income, contributions without donor restrictions, grant revenue, contracted behavioral healthcare revenue, capitated revenue, and other miscellaneous revenue.

(t) *Excess of Revenues over Expenses*

The consolidated statements of operations include excess of revenues over expenses. Changes in net assets without donor restrictions, which are excluded from the excess of revenues over expenses, primarily include changes in accrued pension asset, net assets assumed in affiliation, net assets released from restrictions for capital expenditures, and capital assets received.

(u) *Federal Income Taxes*

ASC Subtopic 740-10, *Income Taxes*, clarifies the accounting for uncertainty in income taxes recognized in MHS' consolidated financial statements. This topic also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. Only tax positions that meet the "more-likely than-not" recognition threshold at the effective date may be recognized or continue to be recognized upon adoption. In addition, this topic provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Other than Medis, Inc., Physicians of Southwest Washington, LLC and Olympic Sports & Spine, PLLC, which are all taxable

entities, all of the other entities have obtained determination letters from the Internal Revenue Service that they are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in 501(c)(3) of the Internal Revenue Code, except for tax on unrelated business income.

(v) Self-Insurance Reserves

MHS is self-insured with respect to professional and general liability, workers' compensation and medical and other health benefits with excess insurance coverage over self-insured retention limits. MHS records insurance liabilities for these specific items by using third party actuarial calculations and certain assumptions and inputs such as MHS historical claims experience and the estimated amount of future claims that will be incurred.

(w) New and Pending Accounting Standards

In June 2016, FASB issued Accounting Standards Update (ASU) 2016-13 and in November 2019, issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this update require that financial assets are measured at amortized cost basis and presented at the net amount expected to be collected. This eliminates the probable initial recognition threshold in current GAAP and, instead, reflects an entity's current estimate of all expected credit losses and broadens the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The provisions of this ASU are effective for MHS for the year beginning on January 1, 2023. The adoption of this ASU did not have a material impact on our financial statements.

In April 2019, FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. The amendments in this update are divided into four separate topics that discuss the details of the improvement areas and the amendments made to the Codification for these improvement areas. Topics 1, 2 and 5 in this ASU relate specifically to ASU 2016-13, which is effective for MHS for the year beginning January 1, 2023. Topics 3 and 4 in this ASU have been evaluated and are not applicable to MHS. The adoption of this ASU did not have a material impact on our financial statements.

(2) Coronavirus (COVID-19) Impact

MHS has filed applications and obtained reimbursement of additional expenses from the Federal Emergency Management Agency (FEMA) based on criteria due to the national emergency declaration made due to COVID-19. MHS has submitted funding applications with FEMA that covers costs incurred in order to respond to the COVID-19 pandemic. MHS recognizes FEMA reimbursements as they are obligated by the agency. MHS recognized \$111,226 and \$14,578 of FEMA reimbursements for the years ended December 31, 2023 and 2022, respectively, within other operating revenue in the statements of operations.

(3) Revenue from Contracts with Customers

Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by MHS and are recognized either over time or at a point in time. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred through a point in time in relation to total actual charges incurred. MHS believes that this method provides a useful depiction of the provision of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospitals or clinics receiving inpatient or outpatient services. MHS measures an inpatient performance obligation from time of admission to time of discharge and an outpatient performance obligation from the start of the outpatient service to the completion of the outpatient service. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided to patients and customers.

MHS has elected to apply the optional exemption in ASC 606-10-50-14a as all of MHS' performance obligations related to contracts with a duration of less than one year. Under this exemption, MHS was not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Any unsatisfied or partially unsatisfied performance obligations are completed within days or weeks of the end of the year.

MHS determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with MHS policy, and implicit price concessions provided to uninsured patients. MHS determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies and historical experience. MHS determines its estimate of implicit price concessions based on its historical collection experience with each class of patients.

Contractual agreements with third-party payors provide for payments at amounts less than MHS' established charges. A summary of the payment arrangements with major third-party payors is as follows:

- Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, which provides for reimbursement based on Medicare Severity Diagnosis-Related Groups (MS-DRGs). These rates vary according to a patient classification system that is based on clinical diagnosis, acuity, and expected use of hospital resources. The majority of Medicare outpatient services is reimbursed under a prospective payment methodology, the Ambulatory Payment Classifications (APCs), or fee schedules.
- Medicaid – Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment system similar to Medicare; however, Medicaid utilizes All Payor Refined Diagnosis-Related Groups (APR-DRGs) as opposed to Medicare's MS-DRGs. The majority of Medicaid outpatient services is reimbursed under a prospective payment methodology, the Enhanced Ambulatory Patient Groups (EAPG), or fee schedules.
- Other – MHS has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to MHS under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates and fee schedules.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements with the government. Compliance with such laws and regulations may also be subject to future government exclusion from the related programs. There can be no assurance that regulatory or governmental authorities will not challenge MHS' compliance with these laws and regulations, and it is not possible to determine the impact, if any, that such claims or penalties would have upon MHS. In addition, the contracts with commercial payors also provide for retroactive audit and review of claims that can reduce the amount of revenue ultimately received.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the current estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled and no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price were not significant in 2023 or 2022.

Generally, patients who are covered by third-party payors are responsible for related deductibles and co-insurance, which vary in amount. MHS also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. MHS estimates the transaction price for patients with deductibles and co-insurance from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charges by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Additional revenue due to changes in estimates of implicit price concessions, discounts, and contractual adjustments for prior years were not significant for 2023 or 2022. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay and deemed uncollectable are recorded as bad debt expense.

Consistent with MHS' mission, care is provided to patients regardless of their ability to pay. MHS has determined that it has provided implicit price concessions to uninsured patients and patients with other uninsured balances. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amount MHS expects to receive based on its collection experience with those patients. Patients who meet the criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as uncompensated care are not reported as revenue.

MHS has determined that the best depiction of its revenue is by its mix of payors as this shows the amount of revenue recognized from each portfolio. Patient service revenue disaggregated by payor for the years ended December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Payors:		
Medicare	\$ 1,392,360	1,068,131
Medicaid	697,273	623,026
Premera	568,520	521,521
Regence	408,562	392,750
Aetna	191,124	192,352
United Healthcare	150,687	133,716
First Choice	131,606	117,366
Kaiser Permanente	112,527	134,237
Self-pay	20,654	23,149
Other	848,015	559,640
	<u>\$ 4,521,328</u>	<u>3,765,888</u>

MHS has elected to apply the practical expedient under ASC 340-40-25-4 and therefore, all incremental customer contract acquisition costs are expensed as incurred, as the amortization period of the asset that MHS would have otherwise recognized is one year or less in duration.

(4) Concentration of Credit Risk

MHS grants credit without collateral to its patients, most of whom are residents of the communities it serves and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors at December 31, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Medicare	35 %	35 %
Medicaid	22	25
Premera	8	7
Regence	7	6
Self-pay	5	5
First Choice	2	1
Health Care Exchange	1	1
Other commercial insurance	20	20
	<u>100 %</u>	<u>100 %</u>

(5) Fair Value Measurements

(a) Fair Value Hierarchy

In accordance with ASC Topic 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for similar assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical or similar assets or liabilities that MHS could access at the measurement date. Level 1 securities generally include investments in equity securities, mutual funds and certain fixed income securities.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are based upon observable market inputs for the asset or liability, either directly or indirectly. Level 2 securities generally include investments in fixed income securities (composed primarily of government, agency and corporate bonds) and interest rate swaps.
- Level 3 inputs are unobservable market inputs for the asset or liability. Level 3 securities include donor trusts where MHS is not the trustee.

The level in the fair value hierarchy within which a fair value measurement, in its entirety, falls is based on the lowest level input that is significant to the fair value measurement.

ASC Subtopic 820-10 allows for the use of a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by MHS is the Net Asset Value (NAV) per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. Valuations provided by investment managers consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the redemption price. MHS reviews valuations and assumptions provided by investment managers for reasonableness and believes that the carrying amounts of these financial instruments approximate the estimated fair value of the instrument. Where investments are not presented at fair value, NAV is used as a practical expedient to approximate fair value.

The following tables present the placement in the fair value hierarchy of investment assets and liabilities that are measured at fair value on a recurring basis and investments valued at NAV at December 31, 2023 and 2022:

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2023			
Assets:				
Trading securities:				
Mutual funds	\$ 1,069,171	1,069,171	—	—
Fixed income bond funds	363,707	363,707	—	—
Fixed income governmental obligations	160,305	124,321	35,984	—
Fixed income other	163,597	—	163,597	—
Donor trusts	36,427	—	—	36,427
Interest rate swaps	26,421	—	26,421	—
Total assets at fair value	1,819,628	\$ 1,557,199	226,002	36,427
Investment assets valued at NAV	289,026			
Total assets at fair value or NAV	\$ 2,108,654			
Liabilities:				
Interest rate swaps	\$ 6,425	—	6,425	—

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2022			
Assets:				
Trading securities:				
Mutual funds	\$ 927,945	927,945	—	—
Equity securities	8,204	8,204	—	—
Fixed income bond funds	327,965	327,965	—	—
Fixed income governmental obligations	152,312	114,851	37,461	—
Fixed income other	178,595	—	178,595	—
Commingled trust fund – international equity	14,376	—	14,376	—
Donor trusts	29,431	—	—	29,431
Interest rate swaps	23,496	—	23,496	—
Total assets at fair value	1,662,324	\$ 1,378,965	253,928	29,431
Investment assets valued at NAV	403,251			
Total assets at fair value or NAV	\$ 2,065,575			
Liabilities:				
Interest rate swaps	\$ 9,470	—	9,470	—

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at December 31, 2023 and 2022:

	NAV December 31, 2023	NAV December 31, 2022	Unfunded commitments	Redemption frequency	Redemption notice period
Hedge funds	\$ 1,472	125,067	60	Quarterly	60 or 95 business days prior to valuation date
Common trust funds	280,800	269,628	N/A	Daily	1 or more business days prior to valuation date
Limited partnerships	6,754	8,556	1,800	N/A	N/A
Total investments valued at NAV	\$ 289,026	403,251	1,860		

Hedge funds include investments in hedge fund-of-funds products with certain investment managers. The fair values of the investments in this category have been estimated using the NAV per share of the investment.

Common trust funds include investments in a collective or common trust account that invests funds in an underlying fund or set of funds. The trust account seeks an investment return that approximates the performance of an index as defined by each common trust fund. The fair value of the investments in this category are estimated using the NAV per share of the fund that is derived from the underlying investments in the trust fund.

Limited partnerships include investments in private equity and venture capital funds in both developed and emerging markets with approximately 35% invested in private equity in developed markets, 20% in venture capital in developed markets, and 45% in private equity and venture capital in emerging markets. The fair values of the investments in this category have been estimated using the NAV of MHS' ownership interest in partners' capital. These assets can never be redeemed with the partnerships. Instead, the nature of the investment in this category is that distributions are received through the liquidation of the underlying assets of the partnership.

(b) Interest Rate Swaps

The interest rate swaps are recorded at estimated fair value by using certain observable market inputs that participants would use from closing prices for similar assets. In addition, other valuation techniques and market inputs are used that help determine the fair values of these swaps, which include certain valuation models, current interest rates, forward yield curves, implied volatility and credit default swap pricing.

The fair value of the interest rate swaps liability is included in interest rate swap liabilities on the consolidated balance sheets, and the fair value of the interest rate swap asset is included in other assets, net on the consolidated balance sheets. The fair value gains of these interest rate swaps for the years ended December 31, 2023 and 2022 were \$5,969 and \$133,126, respectively, and are included in gain on interest rate swaps in other income (loss), net in the consolidated statements of operations. Also included in the gain on interest rate swaps is the gain (loss) on net cash settlement amounts associated with the swaps of \$8,441 and (\$5,439) for the years ended December 31, 2023 and 2022, respectively.

The following table represents both the fair value and settlement value for the interest rate swap assets and liabilities as of December 31, 2023 and 2022:

		Asset derivatives					
		2023			2022		
	Balance sheet location	Fair value	Settlement value	Balance sheet location	Fair value	Settlement value	
Derivative instruments:							
Interest rate sw aps	Other assets, net	\$ 26,421	29,351	Other assets, net	\$ 23,496	26,079	
		Liability derivatives					
		2023			2022		
	Balance sheet location	Fair value	Settlement value	Balance sheet location	Fair value	Settlement value	
Derivative instruments:							
Interest rate sw aps	Interest rates sw ap liabilities	\$ 6,425	7,143	Interest rates sw ap liabilities	\$ 9,470	11,317	

(6) Donor Restricted Assets and Investments

A summary of donor restricted assets and investments at 2023 and 2022 is as follows:

December 31, 2023			
	Donor restricted assets	Investments	Total
Mutual funds	\$ 25,522	1,043,649	1,069,171
Fixed income securities	16,414	671,195	687,609
Hedge funds	35	1,437	1,472

	December 31, 2023		
	Donor restricted assets	Investments	Total
Common trust funds	\$ 6,703	274,097	280,800
Limited partnerships	162	6,592	6,754
Donor trusts	36,427	—	36,427
Pledge receivables, net and other	66,300	—	66,300
Total	\$ 151,563	1,996,970	2,148,533

	December 31, 2022		
	Donor restricted assets	Investments	Total
Mutual funds	\$ 20,491	907,454	927,945
Equity securities	181	8,023	8,204
Fixed income securities	14,548	644,324	658,872
Commingled trust fund – international equity	317	14,059	14,376
Hedge funds	2,762	122,305	125,067
Common trust funds	5,954	263,674	269,628
Limited partnerships	190	8,366	8,556
Donor trusts	29,431	—	29,431
Pledge receivables, net and other	45,652	—	45,652
Total	\$ 119,526	1,968,205	2,087,731

Fixed income securities include mutual funds, corporate bonds, mortgage-backed securities, asset-backed securities, U.S. government obligations, and state government obligations.

(7) Liquidity and Availability of Financial Assets

MHS actively monitors the availability of resources required to meet its operating obligations and other contractual commitments, while also striving to maximize investment returns of its available funds. To help meet its general obligations, MHS can also access the credit markets as a means of producing liquidity, if needed. MHS draws income, appreciation and distributions from its endowment fund up to 5% of the endowment average account value annually, as applicable donor restrictions are met, as another way of providing liquidity. For purposes of analyzing resources available to meet general expenditures over a 12-month period, MHS considers all expenditures related to its ongoing activities to provide integrated healthcare delivery as well as the conduct of services undertaken to support these activities to be general expenditures.

At December 31, 2023 and 2022, MHS' financial resources are as follows:

	2023	2022
Cash and cash equivalents	\$ 512,076	542,067
Accounts receivable	659,925	511,727
Other current assets, net	244,617	165,586
Donor restricted assets	151,563	119,526
Investments	<u>1,996,970</u>	<u>1,968,205</u>
	3,565,151	3,307,111
Less prepaid assets included in other current assets, net	(68,927)	(58,353)
Less donor restricted assets	(151,563)	(119,526)
Less investments with redemption limitations of greater than one year	<u>(6,754)</u>	<u>(8,556)</u>
Total financial assets available for general expenditures	\$ <u><u>3,337,907</u></u>	<u><u>3,120,676</u></u>

In addition to financial assets available to meet general expenditures over the next 12 months, MHS operates mostly using revenues, gains and other support without donor restrictions and anticipates collecting sufficient revenues to cover general expenditures. MHS also has a \$200,000 line of credit available for general expenditures, if needed (note 15).

(8) Property, Plant, and Equipment, Net

A summary of property, plant, and equipment at December 31, 2023 and 2022 is as follows:

	2023	2022
Land and land improvements	\$ 218,551	164,041
Buildings	2,596,458	2,360,383
Equipment	<u>1,236,255</u>	<u>1,051,005</u>
	4,051,264	3,575,429
Less accumulated depreciation	<u>(1,806,178)</u>	<u>(1,640,005)</u>
	2,245,086	1,935,424
Construction in progress	<u>224,381</u>	<u>173,829</u>
Property, plant, and equipment, net	\$ <u><u>2,469,467</u></u>	<u><u>2,109,253</u></u>

Total depreciation and amortization expense for the years ended December 31, 2023 and 2022 was \$163,267 and \$140,892, respectively. Depreciation expense charged to operations for the years ended December 31, 2023 and 2022 amounted to \$162,991 and \$139,145, respectively.

(9) Other Assets, Net

Other assets are as follows at December 31, 2023 and 2022:

	2023	2022
Investment in joint ventures	\$ 92,953	58,977
Deferred compensation plan assets held in trust (note 12)	104,668	87,039
Accrued pension asset (note 12)	49,236	36,428
Self-insured retention receivables, net of current portion (notes 13 and 14)	18,128	17,462
Net investment in lease (note 17(b))	22,459	22,655
Notes receivable (note 10)	75,138	75,284
Interest rate swaps (note 5(b))	26,421	23,496
Other	12,516	8,467
Other assets, net	<u>\$ 401,519</u>	<u>329,808</u>

Deferred compensation plan assets held in trust are participant-managed investments consisting of equity and fixed income mutual funds with prices quoted in active markets.

(10) Notes Receivable

In December 2020, MHS executed a promissory note with Astria Health for a \$75,000 loan. The loan bears a fixed interest rate of 9.5% with payments due June 30 and December 31 of each year. In December 2022, the credit agreement was amended to extend the maturity date. The loan matures in December 2025.

(11) Other Liabilities, Net

Other liabilities are as follows at December 31, 2023 and 2022:

	2023	2022
Professional liability, net of current portion (note 13)	\$ 121,130	103,813
Deferred compensation liability (note 12)	104,668	87,039
Workers' compensation liability, net of current portion (note 14)	15,651	15,444
Other	6,124	24,749
Other liabilities, net	<u>\$ 247,573</u>	<u>231,045</u>

(12) Retirement Plans

(a) MHS Defined Benefit Pension Plan

MHS operates one qualified defined benefit pension plan (the MHS Plan) covering eligible employees. The MHS Plan was closed to new employees effective after July 31, 2002. The benefits are based on years of service and the employee's highest five consecutive years of compensation. MHS contributions to the MHS Plan vary from year to year, but the minimum contribution required by law has been provided in each year. Effective December 31, 2016, participants no longer accrue pension benefits under the Plan.

The following tables set forth the changes in projected benefit obligations, changes in fair value of plan assets, and components of net periodic benefit costs for the MHS Plan, which has measurement dates of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Change in projected benefit obligation:		
Projected benefit obligations at beginning of year	\$ 454,337	663,039
Service cost	780	650
Interest cost	24,026	19,329
Actuarial loss (gain)	10,060	(142,861)
Expected administrative expenses	(780)	(650)
Benefits paid	<u>(32,492)</u>	<u>(85,170)</u>
Projected benefit obligations at end of year	\$ <u><u>455,931</u></u>	<u><u>454,337</u></u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 490,765	723,990
Actual gain (loss) on plan assets	47,597	(147,327)
Actual administrative expenses	(703)	(728)
Benefits paid	<u>(32,492)</u>	<u>(85,170)</u>
Fair value of plan assets at end of year	\$ <u><u>505,167</u></u>	<u><u>490,765</u></u>
Funded status recognized in consolidated balance sheets consist of:		
Asset for pension benefits	\$ 49,236	36,428
Amount recognized in net assets without donor restrictions:		
Net loss	106,209	106,367

	<u>2023</u>	<u>2022</u>
Weighted average assumptions used to determine benefit obligations as of December 31:		
Discount rate	5.30 %	5.50 %

The expected return on plan assets assumption is based upon an analysis of historical long-term returns for various investment categories as measured by appropriate indices. These indices are weighted based upon the extent to which plan assets are invested in the particular categories in arriving at MHS' determination of a composite expected return. An actuary reviews the assumptions annually for reasonableness.

The components of net periodic benefit cost are as follows during the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Components of net periodic benefit cost:		
Service cost	\$ 780	650
Interest cost	24,026	19,329
Expected return on plan assets	(37,568)	(30,858)
Amortization of net actuarial loss	112	5,335
Settlement cost	—	14,559
	<u>\$ (12,650)</u>	<u>9,015</u>

	<u>2023</u>	<u>2022</u>
Weighted average assumptions used to determine benefit obligation as of December 31:		
Discount rate	5.50 %	3.00 %
Expected return on plan assets	6.30	4.50

During the year ended December 31, 2022, the MHS Plan made lump-sum cash payments (settlements) to plan participants and in exchange the MHS Plan was relieved of all remaining liabilities of future payments to those plan participants. These settlements are included in benefits paid within the change in projected benefit obligation. The total amount of these settlements exceeded the total service costs and interest costs for the year ended December 31, 2022 and the pro-rata portion of the remaining balance in net assets without donor restrictions was recognized as part of net periodic benefit costs.

The accumulated benefit obligation for the MHS Plan was \$455,931 and \$454,337 at December 31, 2023 and 2022, respectively.

(i) *Estimated Future Benefit Payments*

The following benefits payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Pension benefits
2024	\$ 36,424
2025	35,716
2026	36,681
2027	36,443
2028	36,330
2029–33	170,058

(ii) *Plan Assets*

The following tables set forth by level, within the fair value hierarchy, the MHS Plan's investments at fair value:

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2023			
Assets:				
Cash and cash equivalents	\$ 2,586	2,586	—	—
Trading securities:				
Mutual funds	47,061	47,061	—	—
Fixed income bond funds	38,421	38,227	194	—
Fixed income governmental obligations	199,689	159,733	39,956	—
Fixed income other	166,770	6,764	160,006	—
Commingled trust fund – international equity	10,724	—	10,724	—
	465,251	\$ 254,371	210,880	—

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2023			
Broker receivables	\$ 20,343			
Broker payables	(54,381)			
Total assets at fair value	431,213			
Investments valued at NAV	73,954			
Total assets at fair value or NAV	\$ 505,167			

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2022			
Assets:				
Cash and cash equivalents	\$ 8,926	8,926	—	—
Trading securities:				
Mutual funds	91,812	91,812	—	—
Fixed income bond funds	5,100	4,921	179	—
Fixed income governmental obligations	187,978	140,834	47,144	—
Fixed income other	162,979	13,368	149,611	—
Commingled trust fund – international equity	12,729	—	12,729	—
	469,524	\$ 259,861	209,663	—

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2022			
Broker receivables	\$ 38,910			
Broker payables	(85,854)			
Total assets at fair value	422,580			
Investments valued at NAV	68,185			
Total assets at fair value or NAV	\$ 490,765			

There were no significant transfers into or out of Level 1 or Level 2 financial instruments during the years ended December 31, 2023 and 2022.

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at December 31, 2023 and 2022:

	NAV December 31, 2023	NAV December 31, 2022	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Absolute return funds	\$ 70,377	63,783	N/A	Monthly	5 business days prior to valuation date
Limited partnerships	3,577	4,402	850	N/A	N/A
Total investments valued at NAV	\$ 73,954	68,185	850		

Absolute return fund investments consist primarily of listed equity, equity-related and debt securities, including exchange-traded funds, other securities and other pooled investment vehicles. These investments use derivatives or other instruments for both investment and hedging purposes and may take long and/or short positions, and the derivative investments may include but are not restricted to futures, options, swaps, and forward currency contracts.

Limited partnerships include investments in private equity and venture capital in both developed and emerging markets. The fair values of the investments in this category have been estimated using the NAV of MHS' ownership interest in partners' capital. These assets can never be redeemed with the partnerships. Instead, the nature of the investment in this category is that distributions are received through the liquidation of the underlying assets of the partnership.

The defined benefit plan weighted average asset allocations at December 31, 2023 and 2022 by asset category are as follows:

	<u>2023</u>	<u>2022</u>
Asset category:		
Domestic equities	6 %	13 %
International equities	5	9
Fixed income securities	88	77
Alternative investments	<u>1</u>	<u>1</u>
	<u>100 %</u>	<u>100 %</u>

(iii) *Investment Objectives*

The target asset allocations for each asset class are set based on the achieved funding levels for the Plan and are summarized below:

	<u>2023</u>	<u>2022</u>
Asset category:		
Domestic equities	5 %	12 %
International equities	5	8
Fixed income securities	<u>90</u>	<u>80</u>
	<u>100 %</u>	<u>100 %</u>

(iv) *Investment Categories*

Equities

The strategic role of domestic equities is to provide higher expected market returns (along with international equities) of the major asset classes; maintain a diversified exposure within the U.S. stock market using multimanager portfolio strategies; and achieve returns in excess of passive indices using active investment managers and strategies.

The strategic role of international equities is to provide higher expected market return premiums (along with domestic equities) of the major asset classes and diversify the Plan's overall equity exposure by investing in non-U.S. stocks that are less than fully correlated to domestic equities with similar return expectations; to maintain a diversified exposure within the international stock market through the use of multimanager portfolio strategies; and to achieve returns in excess of passive indices through the use of active investment managers and strategies.

The strategic role of emerging markets is to diversify the portfolio relative to domestic equities and fixed income investments and to specifically include equity investment in selected global markets and may also include currency hedging for defensive purposes.

Fixed Income

The strategic role of fixed income securities is to diversify the Plan's equity exposure by investing in fixed income securities that exhibit a low correlation to equities and lower volatility; maintain a diversified exposure within the U.S. fixed income market using multimanager portfolio strategies; and achieve returns in excess of passive indices through the use of active investment managers and strategies. It also provides effective diversification against equities and a stable level of cash flow.

Alternative Investments

The strategic role of alternative investments is for diversification relative to equities and fixed income investments, to add absolute return using hedging strategies, and to achieve expected return premiums over longer holding periods. Alternative investments include investments in equity, equity-related and debt securities, including exchange-traded funds, other securities and other pooled investment vehicles, hedge funds and private equities and are under the supervision and control of investment managers. Hedge funds include investments in a variety of instruments including stocks, bonds, commodities, and a variety of derivative instruments. Private equities consist primarily of equity investments made in companies that are not quoted on a public stock market, which can include U.S. and non-U.S. venture capital, leveraged buyouts, and mezzanine financing.

(b) Yakima Defined Benefit Pension Plan

Yakima operates one qualified defined benefit pension plan (the Yakima Plan) covering eligible employees. The Yakima Plan was closed to new employees effective after May 31, 2008. The benefits are based on years of service and the employee's highest five consecutive years of compensation. Contributions to the Yakima Plan vary from year to year, but the minimum contribution required by law has been provided in each year. Effective December 31, 2010 for nonunion participants and December 31, 2011 for union participants, participants no longer accrue pension benefits under the Yakima Plan.

The following tables set forth the changes in projected benefit obligations, changes in fair value of plan assets, and components of net periodic benefit costs for the Yakima Plan, which has measurement dates of December 31, 2023:

Change in projected benefit obligation:

Projected benefit obligations at beginning of year	\$	111,906
Interest cost		5,899
Actuarial loss		2,107
Benefits paid		<u>(8,168)</u>
Projected benefit obligations at end of year	\$	<u>111,744</u>

Change in fair value of plan assets:

Fair value of plan assets at beginning of year	\$	111,962
Actual gain on plan assets		9,534
Benefits paid		<u>(8,168)</u>
Fair value of plan assets at end of year	\$	<u>113,328</u>

Funded status recognized in consolidated balance sheets consist of:

Asset for pension benefits	\$	1,584
Amount recognized in net assets without donor restrictions:		
Net loss		(5,190)

Weighted average assumptions used to determine benefit obligations as of December 31:

Discount rate	5.25 %
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The expected return on plan assets assumption is based upon an analysis of historical long-term returns for various investment categories as measured by appropriate indices. These indices are weighted based upon the extent to which plan assets are invested in the particular categories in arriving at Yakima's determination of a composite expected return. An actuary reviews the assumptions annually for reasonableness.

The components of net periodic benefit cost are as follows during the year ended December 31, 2023:

Components of net periodic benefit cost:

Interest cost	\$	5,899
Expected return on plan assets		<u>(6,191)</u>
	\$	<u>(292)</u>

Weighted average assumptions used to determine
benefit obligation as of December 31:

Discount rate	5.25 %
Expected return on plan assets	5.75

The accumulated benefit obligation for the Yakima Plan was \$111,744 at December 31, 2023.

(i) *Estimated Future Benefit Payments*

The following benefits payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Pension benefits
2024	\$ 8,737
2025	8,842
2026	8,840
2027	8,831
2028	8,784
2029–2033	42,065

(ii) *Plan Assets*

The following tables set forth by level, within the fair value hierarchy, the Yakima Plans' investments at fair value:

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2023			
Assets:				
Cash and cash equivalents	\$ 16,006	16,006	—	—
Trading securities:				
Equity securities	97,322	97,322	—	—
Total assets at fair value	\$ 113,328	113,328	—	—

(iii) *Investment Categories*

Equity securities

The strategic role of equity securities (domestic and international) is to provide higher expected market returns of the major asset classes within the applicable markets and maintain a diversified exposure within the portfolio.

(c) Defined Contribution Plans

MHS currently maintains three defined contribution plans including the MHS 401(a) Retirement Account Plan (RAP), the MHS 403(b) Employee Savings Plan, and the MHS 401(k) Plan. Most employees assigned to work at Deaconess Hospital, Valley Hospital, Rockwood Clinic and Capital Medical Center are eligible for participation in the MHS 401(k) Plan, which is funded by both MHS and employee contributions. The MHS 403(b) Employee Savings Plan is 100% funded by employee contributions, and the RAP is 100% funded by MHS contributions.

Yakima currently maintains two defined contribution plans including a 403(b) tax-deferred annuity plan and a 401(k) plan, which is a safe harbor plan. The 403(b) plan was frozen to contributions as of January 1, 2020. The 401(k) plan is funded by both Yakima and employee contributions.

MHS' and Yakima's funding for the defined contribution plans is based on certain percentages of the employees' base pay and/or a percentage of their deferred contributions. Employer contributions to the defined-contribution plans for 2023 and 2022 were approximately \$65,000 and \$58,000, respectively, which were included with employee benefits in the accompanying consolidated statements of operations and changes in net assets.

(d) Other

In addition to the defined benefit and defined contribution plans as described above, MHS and Yakima also maintain several deferred compensation arrangements for the benefit of eligible employees. Substantially all amounts that are deferred under these arrangements are held in trust until such time as these funds become payable to the participating employees.

(13) Professional Liability

MHS maintains a self-insurance program for professional liability with excess coverage over self-insured retention limits provided by commercial insurance carriers. MHS has recorded a liability as of December 31, 2023 and 2022, which comprises estimated deductibles and retentions for known claims at year-end and a liability for incurred but not reported claims based on an actuarially determined estimate.

During 2022, MHS began operations of a wholly owned insurance captive, Commencement Re (the Captive). On September 15, 2022, the Captive took on the risk to self-insure and reinsure certain layers of professional and general liability risk from MHS.

At December 31, 2023 and 2022, the estimated gross professional liability (including current and long-term portions) was \$156,125 and \$128,101, respectively. The current portion is included in accounts payable and accrued expenses, and the remainder is included in other liabilities, net in the accompanying consolidated balance sheets. MHS has recorded a receivable for amounts to be received from the excess insurance carriers for their portion of the claims (including current and long-term portions) of \$15,100 and \$22,754 as of December 31, 2023 and 2022, respectively. The current amount is included in other current assets, net, and the remainder is included in other assets, net in the accompanying consolidated balance sheets.

(14) Workers' Compensation and Employee Health Benefit Programs

MHS maintains a self-insurance program for workers' compensation with excess coverage over self-insured retention limits provided by commercial insurance carriers. MHS has recorded a liability based on an actuarial estimate of future claims payments. At December 31, 2023 and 2022, the estimated liability based on future claims cost totaled \$21,711 and \$21,470, respectively. The gross liabilities (including both current and long-term portions) total \$24,738 and \$24,836 as of December 31, 2023 and 2022, respectively. The long-term amounts are included in other liabilities, net, and the current portions are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. These liabilities are secured by a letter of credit with the State of Washington. MHS has recorded a receivable for amounts to be received from excess insurance carriers of \$3,028 and \$3,366 as of December 31, 2023 and 2022, respectively, which is included with other current assets, net and other assets, net for the respective estimated current and long-term portions.

MHS maintains a self-insurance program for employee medical and dental insurance. Employees can elect to be included in the self-insurance plan as a part of their fringe benefit package. Yakima maintained a separate self-insurance program for employee medical and dental insurance during 2023. Yakima employees were moved into the MHS program as of January 1, 2024. Premiums deducted from employees' wages are used in paying a portion of members' medical claims. The estimated liability for claims in 2023 and 2022 was \$25,346 and \$12,984, respectively. These amounts are included in accrued compensation and related liabilities in the accompanying consolidated balance sheets.

(15) Long-Term Debt

Long-term debt consists of the following at December 31, 2023 and 2022:

	2023	2022
WHCFA Revenue bonds, 2022A	\$ 49,985	49,985
WHCFA Revenue bonds, 2022B	108,145	108,145
WHCFA Revenue bonds, 2022C	80,000	80,000
WHCFA Revenue bonds, 2022D	130,170	130,170
WHCFA Revenue bonds, 2022 Taxable Private Placement	430,000	430,000
2020 Taxable bonds	300,000	300,000

	2023	2022
OCED financing	\$ 75,642	57,249
WHCFA Revenue bonds, 2017 Series A and B	310,415	314,550
WHCFA Revenue bonds, 2017 Series C and D	111,010	111,010
WHCFA Revenue bonds, 2015 Series A and B	329,345	343,675
Other	17,005	19,085
	<u>1,941,717</u>	<u>1,943,869</u>
Adjusted for:		
Current portion	(22,411)	(18,496)
Bond premiums, discounts, and debt issuance costs	42,643	46,764
	<u>1,961,949</u>	<u>1,972,137</u>
Long-term debt, net of current portion	\$	1,972,137

(a) Washington Health Care Facility Authority (WHCFA) Revenue Bonds, 2022A

In August 2022, MHS issued \$49,985 of 2022 Series A bonds. These bonds were issued as variable rate tax exempt private placement debt with Royal Bank of Canada, with principal payments ranging from \$1,845 in 2040 to final payment of \$20,365 in 2044. The interest rates reset monthly and are based on SIFMA plus a spread.

(b) WHCFA Revenue Bonds, 2022B

In August 2022, MHS issued \$108,145 of 2022 Series B bonds. These bonds were issued as variable rate tax exempt private placement debt with PNC Bank, NA. Principal payments range from \$7,035 in 2040 to \$22,085 in 2045, with a final payment of \$19,715 in 2046 with interest payable semi-annually in February and August, based on SOFR plus a spread.

(c) WHCFA Revenue Bonds, 2022C

In December 2022, MHS issued \$80,000 of 2022 Series C bonds. These bonds were issued as variable rate tax exempt private placement debt with Banc of America Preferred Funding Corp. The principal is due in full in 2047 with monthly interest payments based on SIFMA plus a spread.

(d) WHCFA Revenue Bonds, 2022D

In December 2022, MHS issued \$130,170 of 2022 Series D bonds. These bonds were issued as variable rate taxable private placement debt with Bank of America, NA. The principal is due in full in 2047 with monthly interest payments based on SOFR plus a spread.

(e) WHCFA Revenue Bonds, 2022 Taxable Private Placement

In August 2022, MHS issued \$430,000 of Series 2022 taxable private placement bonds. The bonds were acquired by various private investors. Included in the issuance are \$130,000 in bonds bearing 4.48% fixed rate interest with principal due in full in 2037, and \$300,000 in bonds bearing 4.75% fixed rate interest with principal due in full in 2052.

(f) 2020 Taxable Bonds

In July 2020, MHS issued \$300,000 of taxable 2020 series bonds. These bonds were issued as fixed rate bonds that bear interest of 2.803%. The principal of \$300,000 is due in 2050, with interest only payments made semiannually in February and August of each year.

(g) OCED Financing

In June 2020, MHS finalized a sale-leaseback transaction for four off-campus emergency departments (OCED) with total cash proceeds received of \$61,794. In October 2022, MHS finalized a sale-leaseback for three additional OCEDs. Due to the specific terms of the agreements, the leases qualified as financing type leases. The agreements did not meet the criteria for sale-leaseback accounting treatment and instead are considered a financing liability. For the agreement finalized in 2022, cash proceeds are not received until construction commences and repayment of the financing liabilities do not start until construction is completed. Construction of the first OCED was completed in December 2023. The 2020 agreement bears an implicit interest rate of 4.64% while the 2022 agreement bears an implicit interest rate of 5.90%. Total annual principal payments range from \$1,856 in 2043 to \$6,431 in 2039.

(h) WHCFA Revenue Bonds 2017 Series A and B

In November 2017, MHS issued \$333,970 of 2017 Series A and B bonds. These bonds were issued as fixed rate bonds that bear interest ranging from 3.0% to 5.0%. Annual principal payments range from \$4,310 in 2024 to \$62,410 in 2047.

(i) WHCFA Revenue Bonds 2017 Series C, D, and E

In November 2017, MHS entered into a \$111,010 variable rate private placement agreement (Series C and D) with JPMorgan Chase Bank, National Association. The first annual principal payment of \$55,505 is due in 2048, with a final principal payment of \$55,505 in 2049. The interest rates reset monthly and are based on SOFR plus a spread.

(j) WHCFA Revenue Bonds 2015 Series A and B

In April 2015, MHS issued \$373,390 of 2015 Series A and B bonds. Series A and B bonds were issued as fixed rate bonds that bear interest ranging from 2.0% to 5.0%. Annual principal payments range from \$4,295 in 2040 to \$24,085 in 2034 with a final payment of \$8,860 due in 2045.

(k) Other

The other debt listed is primarily made up of debt held by Navos. Of the outstanding debt at December 31, 2023, \$16,350 is associated with certain buildings and other capital assets operated by Navos and is subject to provisions whereby the debt will be forgiven upon compliance with those provisions. These provisions state that Navos maintains the assets that were built or purchased with these notes and maintains their usage when the promissory note was signed for the length specified. If these provisions are not met, the note must be repaid based on the terms of the agreement. The forgivable debt is subject to a forgiveness provision in years 2028 through 2068.

(I) Line of Credit

In October 2022, MHS entered into a \$200,000 revolving credit agreement with JPMorgan Chase Bank, NA. In October 2023, the agreement was amended to \$100,000. The line of credit matures October 2024 and bears interest at a variable rate based upon SOFR. The balance outstanding was \$62,935 as of December 31, 2023. The line on credit had no draws as of December 31, 2022.

Revenue bonds issued by MHS through WHCFA are subject to applicable bond indenture agreements, which require that MHS satisfy certain measures of financial performance as long as the bonds are outstanding. These measures include a minimum debt service coverage ratio and a condition that the bonds are secured by a gross receivables pledge. Based on management's assessment of these requirements, MHS is in compliance with these covenants at December 31, 2023 and 2022.

Each fixed-rate revenue bond requires semiannual interest payments on February 15 and August 15 of each year until maturity. These bonds are subject to early redemption by MHS on or after certain specific dates and at certain specific redemption prices as outlined in each bond agreement.

Principal maturities on long-term debt are as follows:

Year ending December 31:		
2024	\$	22,456
2025		23,581
2026		24,753
2027		25,993
2028		27,298
Thereafter		<u>1,817,636</u>
	\$	<u><u>1,941,717</u></u>

A summary of interest costs is as follows during the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Interest cost:		
Charged to operations	\$ 81,941	59,006
Amortization of bond premiums, discounts, and issuance costs	(2,226)	(2,163)
Capitalized	<u>2,486</u>	<u>555</u>
	<u>\$ 82,201</u>	<u>57,398</u>

(16) Commitments and Contingencies

Approximately 42% of MHS employees were covered under collective bargaining agreements as of December 31, 2023. These employees provide nursing, nursing support, pharmacy, imaging, lab, inpatient and outpatient therapies, housekeeping, food, laundry, maintenance, and inventory/distribution services to MHS. Collective bargaining agreements have various expiration dates extending through March 2026.

(17) Leases

(a) Lessee

MHS leases various equipment and facilities under noncancelable operating and finance leases. Lease terms for noncancelable operating leases range from 1 to 20 years, and existing leases have expiration dates through 2042. Lease terms for finance leases range from 1 to 21 years, and existing leases have expiration dates through 2040.

The components of lease cost for the years ended December 31, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 42,050	36,768
Finance lease cost:		
Amortization of right-of-use assets	5,922	4,745
Interest on lease liabilities	<u>819</u>	<u>802</u>
Total finance lease cost	6,741	5,547
Short term lease cost	751	1,503
Variable lease cost	—	9,138
Sublease income	<u>(595)</u>	<u>(1,727)</u>
Total lease cost	\$ <u>48,947</u>	<u>51,229</u>

Other information related to leases as of December 31, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Weighted average remaining lease term (years):		
Operating leases	8.6	7.2
Finance leases	5.5	6.0
Weighted average discount rate:		
Operating leases	4.0 %	4.0 %
Finance leases	4.4	4.4

	2023	2022
Operating cash flows from operating leases	\$ (39,882)	(35,805)
Operating cash flows from finance leases	(819)	(802)
Financing cash flows from finance leases	(5,782)	(4,499)
Right-of-use assets obtained in exchange for new operating lease liabilities	62,205	56,322
Right-of-use assets obtained in exchange for new finance lease liabilities	7,676	3,528

Maturities of lease liabilities under noncancelable leases as of December 31, 2023 are as follows:

	Operating leases	Finance leases	Total
For year ended December 31:			
2024	\$ 45,337	7,278	52,615
2025	41,668	5,215	46,883
2026	37,006	2,420	39,426
2027	30,844	2,154	32,998
2028	27,300	1,305	28,605
Thereafter	106,550	3,045	109,595
Total undiscounted lease payments	288,705	21,417	310,122
Less present value discount	(42,748)	(2,470)	(45,218)
Total lease liabilities	\$ <u>245,957</u>	<u>18,947</u>	<u>264,904</u>

(b) Lessor

MHS leases a building to the Alliance for South Sound Health, which does business under the name Wellfound Behavioral Health Hospital (Wellfound). Wellfound is a related party owned 50 percent by MHS. The leased building is owned solely by MHS and is the only asset that MHS leases out as a lessor. The lease has a 20-year initial lease term, with four 5-year extension options. Due to the related party nature of the lease, MHS considers it reasonably certain that Wellfound will exercise its four lease renewal options, and as such, treats the lease as a 40-year lease. There is no purchase option stated in the lease contract. MHS has determined that the lease is a sales-type financing lease, since the expected lease term spans a major portion of the useful life of the building. The net investment in this lease was \$22,459 and \$22,655 at December 31, 2023 and 2022, respectively, and is included in other assets, net on the consolidated balance sheets.

Revenue from leases for the years ended December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Interest income on net investment in finance leases	\$ 1,022	1,032
Variable lease income	<u>28</u>	<u>28</u>
Total lease income	<u>\$ 1,050</u>	<u>1,060</u>

Future lease payments receivable as of December 31, 2023 are as follows:

Year ended December 31:	
2024	\$ 1,227
2025	1,227
2026	1,227
2027	1,227
2028	1,227
Thereafter	<u>39,346</u>
Total lease payments to be received	45,481
Less unearned interest income	<u>(23,022)</u>
Net investment in lease	<u>\$ 22,459</u>

(18) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following specified purposes at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Healthcare services	\$ 105,652	51,816
Endowment funds, perpetual trusts and related receivables	71,548	78,231
Purchase of property, plant and equipment	79,602	42,001
Indigent care	2,499	2,459
Health education	<u>1,360</u>	<u>1,006</u>
Total net assets with donor restrictions	<u>\$ 260,661</u>	<u>175,513</u>

(19) Endowment Funds

MHS' endowments consist of over 100 individual funds established for a variety of purposes. They include both endowment funds with donor restrictions and funds designated without donor restrictions by the board of directors of its foundations to function as endowments (board-designated endowments). Net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions and nature of restrictions, if any.

The following tables present MHS' endowment net asset composition as well as associated changes therein:

	Board designated without donor restrictions	Funds with donor restrictions	Total
Endowment net assets, December 31, 2021	\$ 2,861	44,012	46,873
Investment return:			
Investment income	16	376	392
Net depreciation – realized and unrealized	(85)	(987)	(1,072)
Total investment return	(69)	(611)	(680)
Contributions	—	3,499	3,499
Appropriation of endowment assets for expenditure	(28)	(581)	(609)
Endowment net assets, December 31, 2022	2,764	46,319	49,083
Investment return:			
Investment income	72	933	1,005
Net depreciation – realized and unrealized	334	5,850	6,184
Total investment return	406	6,783	7,189
Contributions	—	18,188	18,188
Appropriation of endowment assets for expenditure	(1,198)	(29,455)	(30,653)
Endowment net assets, December 31, 2023	\$ 1,972	41,835	43,807

Perpetual trusts that are held and managed by third party trustees are recorded as net assets with donor restrictions on the consolidated balance sheets; however, they are not included as endowment net assets with donor restrictions in the above presentation. Those perpetual trusts totaled \$18,698 and \$27,650, respectively, as of December 31, 2023 and 2022. Also excluded from the presentation of endowment net assets with donor restrictions above are pledge receivables and other totaling \$4,020 and \$4,262, respectively, as of December 31, 2023 and 2022.

(a) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level of the original gifts and the amounts of subsequent donations accumulated at the funds. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in net assets with donor restrictions. There were no funds with deficiencies in 2023 or 2022.

(b) Investment Policy – Including Return Objectives and Strategies to Achieve Objectives

The endowment assets are invested in an investment portfolio, which include those assets of donor restricted funds that MHS must hold in perpetuity as well as all other foundation-related investment assets. MHS has adopted an investment policy for the foundation investments that intends to provide income to support the spending policy while seeking to maintain the purchasing power of the endowment assets. To satisfy its long-term rate of return objectives, MHS relies on a total return strategy in which investment returns are achieved through both capital appreciation and interest and dividend income. MHS uses a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. There are some donor restricted funds that are held separately from MHS' pooled investments. These endowments are invested by donors in manners to provide funding for specific purposes as determined by donors.

(c) Spending Policy

In order to provide a stable and consistent level of funding for programs and services supported by the endowments, the foundations have determined that an annual spending rate of 5% of the endowment's average account value is prudent. In establishing the spending policies, the MHS foundations considered among other things, the expected total return on its endowments, effect of inflation, duration of the endowments to achieve its objective of maintaining the purchasing power of the endowment assets held in perpetuity, as well as to provide additional growth through new gifts and investment returns.

(20) Functional Expenses

MHS provides inpatient and outpatient services, physician services, home health services, and fundraising activities. Certain categories of expenses are attributable to programs and support services. These included salaries and wages, depreciation and amortization and other expenses. Costs are allocated based on cost allocation methods depending on the allocable expense, including square footage, time utilization and percentage of gross charges. Expenses related to providing these services are as follows for the years ended December 31, 2023 and 2022:

2023					
	Program services			Support services	Total
	Hospitals and related services	Clinics and urgent care centers	Retail and other services	Corporate and support services	
Salaries and wages	\$ 1,566,478	510,975	162,278	279,047	2,518,778
Employee benefits	159,185	78,846	40,516	102,520	381,067
Supplies	630,578	47,346	124,610	5,171	807,705
Purchased services	184,355	69,179	51,253	181,244	486,031
Depreciation and amortization	110,864	13,849	12,005	26,549	163,267
Interest	69,347	818	77	11,699	81,941
Other	378,173	54,197	155,055	111,272	698,697
	<u>\$ 3,098,980</u>	<u>775,210</u>	<u>545,794</u>	<u>717,502</u>	<u>5,137,486</u>
2022					
	Program services			Support services	Total
	Hospitals and related services	Clinics and urgent care centers	Retail and other services	Corporate and support services	
Salaries and wages	\$ 1,357,838	464,219	93,787	283,421	2,199,265
Employee benefits	133,164	75,536	20,705	68,208	297,613
Supplies	535,376	48,220	70,994	3,880	658,470
Purchased services	135,500	68,800	32,771	159,676	396,747
Depreciation and amortization	87,289	14,878	7,580	31,145	140,892
Interest	40,631	3,715	70	12,426	56,842
Other	281,895	48,356	121,797	89,198	541,246
	<u>\$ 2,571,693</u>	<u>723,724</u>	<u>347,704</u>	<u>647,954</u>	<u>4,291,075</u>

(21) Litigation and Regulatory Environment

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in the imposition of significant fines and penalties, significant repayments for patient services previously billed, and/or expulsion from government healthcare programs. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

MHS is also involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect to MHS' financial position.

(22) Subsequent Events

MHS has evaluated the subsequent events through March 20, 2024, the date at which the consolidated financial statements were issued and has included all necessary adjustments and disclosures.



MULTICARE HEALTH SYSTEM

Consolidated Financial Statements

December 31, 2022 and 2021

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
MultiCare Health System:

Opinion

We have audited the consolidated financial statements of MultiCare Health System, (the Company)(a Washington nonprofit corporation), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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 the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

KPMG LLP

Seattle, Washington
March 21, 2023

MULTICARE HEALTH SYSTEM

Consolidated Balance Sheets

December 31, 2022 and 2021

(In thousands)

Assets	2022	2021
Current assets:		
Cash and cash equivalents	\$ 542,067	308,732
Accounts receivable	511,727	460,569
Supplies inventory	60,070	60,056
Other current assets, net	<u>165,586</u>	<u>96,361</u>
Total current assets	1,279,450	925,718
Donor restricted assets held for long-term purposes	119,526	96,775
Investments	1,968,205	2,610,531
Property, plant, and equipment, net	2,109,253	2,010,134
Right-of-use operating lease asset, net	169,823	140,718
Right-of-use financing lease asset, net	16,798	20,458
Goodwill and intangible assets, net	253,274	172,063
Other assets, net	<u>329,808</u>	<u>382,562</u>
Total assets	\$ <u><u>6,246,137</u></u>	<u><u>6,358,959</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 326,664	283,004
Accrued compensation and related liabilities	329,672	340,029
Accrued interest payable	23,643	18,059
Current portion of right-of-use operating lease liability	29,908	26,376
Current portion of right-of-use financing lease liability	4,965	4,283
Current portion of long-term debt	<u>18,496</u>	<u>43,609</u>
Total current liabilities	733,348	715,360
Interest rate swap liabilities	9,470	119,100
Right-of-use operating lease liability, net of current portion	147,116	120,273
Right-of-use financing lease liability, net of current portion	12,491	16,933
Long-term debt, net of current portion	1,972,137	1,572,235
Other liabilities, net	<u>231,045</u>	<u>208,307</u>
Total liabilities	<u>3,105,607</u>	<u>2,752,208</u>
Commitments and contingencies (note 15)		
Net assets:		
Controlling interest	2,930,546	3,430,009
Noncontrolling interest	<u>34,471</u>	<u>—</u>
Without donor restrictions	2,965,017	3,430,009
With donor restrictions	<u>175,513</u>	<u>176,742</u>
Total net assets	<u>3,140,530</u>	<u>3,606,751</u>
Total liabilities and net assets	\$ <u><u>6,246,137</u></u>	<u><u>6,358,959</u></u>

See accompanying notes to consolidated financial statements.

MULTICARE HEALTH SYSTEM
Consolidated Statements of Operations
Years ended December 31, 2022 and 2021
(In thousands)

	<u>2022</u>	<u>2021</u>
Revenues, gains, and other support without donor restrictions:		
Patient service revenue	\$ 3,765,888	3,504,691
Other operating revenue	231,429	314,323
Net assets released from restrictions for operations	6,382	5,170
Total revenues, gains, and other support without donor restrictions	<u>4,003,699</u>	<u>3,824,184</u>
Expenses:		
Salaries and wages	2,199,265	1,870,645
Employee benefits	297,613	278,185
Supplies	658,470	600,757
Purchased services	396,747	349,159
Depreciation and amortization	140,892	126,307
Interest	56,842	47,670
Other	541,246	486,005
Total expenses	<u>4,291,075</u>	<u>3,758,728</u>
(Deficit) Excess of revenues over expenses from operations	<u>(287,376)</u>	<u>65,456</u>
Other income (loss):		
Investment (loss) income	(344,301)	213,993
Gain on interest rate swaps, net	127,688	25,873
Other loss, net	(11,047)	(13,729)
Total other (loss) income, net	<u>(227,660)</u>	<u>226,137</u>
(Deficit) Excess of revenues over expenses	<u>\$ (515,036)</u>	<u>291,593</u>

See accompanying notes to consolidated financial statements.

MULTICARE HEALTH SYSTEM

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2022 and 2021

(In thousands)

	Without donor restrictions		With donor restrictions	Total net assets
	Controlling interests	Noncontrolling interests		
Balance, December 31, 2020	\$ 3,111,401	—	142,761	3,254,162
Excess of revenues over expenses	291,593	—	—	291,593
Changes in pension assets	24,810	—	—	24,810
Contributions and other	490	—	35,697	36,187
Net assets released from restriction for capital acquisitions	1,715	—	(1,715)	—
Net assets released from restriction for operations and other	—	—	(5,170)	(5,170)
Income on investments	—	—	1,816	1,816
Increase in assets held in trust by others	—	—	3,353	3,353
Change in net assets	318,608	—	33,981	352,589
Balance, December 31, 2021	3,430,009	—	176,742	3,606,751
Deficit of revenues over expenses	(515,036)	—	—	(515,036)
Changes in pension assets	(15,508)	—	—	(15,508)
Changes from noncontrolling interest	—	34,471	—	34,471
Contributions and other	26,539	—	14,875	41,414
Net assets released from restriction for capital acquisitions	4,542	—	(4,542)	—
Net assets released from restriction for operations	—	—	(6,382)	(6,382)
Loss on investments	—	—	(611)	(611)
Decrease in assets held in trust by others	—	—	(4,569)	(4,569)
Change in net assets	(499,463)	34,471	(1,229)	(466,221)
Balance, December 31, 2022	\$ 2,930,546	34,471	175,513	3,140,530

See accompanying notes to consolidated financial statements.

MULTICARE HEALTH SYSTEM
Consolidated Statements of Cash Flows
Years ended December 31, 2022 and 2021
(In thousands)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (466,221)	352,589
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	140,892	126,307
Amortization of bond premiums, discounts, and issuance costs	(2,163)	(2,433)
Net realized and unrealized losses (gains) on investments	378,740	(188,615)
Change in fair value of interest rate swap	(133,126)	(35,247)
(Loss) gain on disposal of assets, net	(3,009)	2,373
Loss (gain) on joint ventures, net	7,032	(513)
Restricted contributions for long-term purposes	(4,968)	(16,952)
Changes in operating assets and liabilities:		
Accounts receivable	(51,158)	(73,590)
Supplies inventory and other current assets	(43,673)	(17,586)
Right-of-use lease asset	35,690	40,614
Other assets, net	80,665	(38,219)
Accounts payable and accrued expenses and accrued interest payable	27,421	67,751
Accrued compensation and related liabilities	(14,765)	38,053
Right-of-use lease liability	(30,021)	(30,721)
Other liabilities, net	21,842	(8,287)
Net cash (used in) provided by operating activities	<u>(56,822)</u>	<u>215,524</u>
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(237,295)	(216,973)
Proceeds from disposal of property, plant, and equipment	6,360	7,629
Purchase of additional ownership in PSW and OSS, net of cash received	(86,915)	—
Purchase of Capital Medical Center and related real estate, net of cash received	—	(179,662)
Investments in joint ventures, net	(11,445)	(10,373)
Purchases of investments	(8,827,993)	(5,634,748)
Sales of investments	9,072,857	5,175,627
Change in donor trusts	(2,833)	5,700
Net cash used in investing activities	<u>(87,264)</u>	<u>(852,800)</u>
Cash flows from financing activities:		
Repayment of long-term debt	(415,646)	(8,522)
Proceeds from bond issuance	798,300	—
Payment of debt issue expenses	(5,702)	—
Principal payments on finance lease obligations	(4,499)	(8,645)
Restricted contributions for long-term purposes	4,968	16,952
Net cash provided by (used in) financing activities	<u>377,421</u>	<u>(215)</u>
Net change in cash and cash equivalents	233,335	(637,491)
Cash and cash equivalents, beginning of year	<u>308,732</u>	<u>946,223</u>
Cash and cash equivalents, end of year	<u>\$ 542,067</u>	<u>308,732</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest, net of amount capitalized	\$ 52,258	48,260
Noncash activities:		
(Decrease) increase in deferred compensation plans	(11,750)	13,471
Increase in accounts payable for purchases of property, plant, and equipment	9,301	1,266

See accompanying notes to consolidated financial statements.

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

(1) Nature of Organization and Summary of Significant Accounting Policies

(a) Organization Description

MultiCare Health System (MHS), a Washington nonprofit corporation, is an integrated healthcare delivery system providing inpatient, outpatient, and other healthcare services primarily to the residents of Pierce, King, Spokane and Thurston Counties and, with respect to pediatric care, much of the southwest Washington region. As of December 31, 2022, MHS was licensed to operate 2099 inpatient hospital beds, including 120 beds associated with a joint venture psychiatric hospital in Tacoma, Washington. MHS operates nine acute care facilities (Tacoma General Hospital, Good Samaritan Hospital, Allenmore Hospital, Mary Bridge Children's Hospital, Auburn Medical Center, Covington Hospital, Deaconess Hospital, Valley Hospital and Capital Medical Center) and one behavioral health hospital (Navos). MHS also operates eight outpatient surgical sites, five free-standing emergency departments, home health, hospice, and multiple urgent care, primary care and multispecialty clinics located throughout the MHS service areas.

The consolidated financial statements include the operations of these facilities and services as well as those of four wholly owned subsidiaries (Greater Lakes Mental Healthcare, Medis, Inc., MultiCare Rehabilitation Specialists, P.C., and PNW PACE Partners, LLC), a wholly owned professional services organization supporting cardiovascular services at MHS (CHVI Professional Corp), a wholly owned accountable care organization (MultiCare Connected Care), a leading population health company (Physicians of Southwest Washington), a physical therapy provider (Olympic Sports & Spine) and two fundraising foundations (Mary Bridge Children's Foundation and MultiCare Foundations, which is doing business as MultiCare Health Foundation, Good Samaritan Foundation, MultiCare South King Health Foundation, MultiCare Behavioral Health Foundation and MultiCare Inland Northwest Foundation).

On May 1, 2022, MHS completed the purchase of additional units of Physicians of Southwest Washington, LLC (PSW). Total consideration of this transaction was \$49,956 and increased MHS' ownership to 75%. As part of the consideration of this business combination, MHS equity interest was valued at its estimated fair value based on the cash consideration transferred using standard valuation techniques of the equity acquired. As a result of the remeasurement of MHS equity interest in PSW, a gain of \$9,105 was recognized within other operating revenue on the consolidated statement of operations for the year ended December 31, 2022. The assets acquired and liabilities assumed were recorded at their estimated fair value as determined using standard asset appraisal techniques. PSW is a leading population health company that provides management of risk contracts and manages a leading national accountable care organization (ACO) among other population health service offerings.

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

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(Dollars in thousands)

The following table summarizes the total consideration and the estimated fair values of assets acquired and liabilities assumed as of the acquisition date along with the cash consideration paid.

Consideration:

Cash consideration transferred	\$	17,358
Fair value of MHS's equity interest before business combination		<u>32,598</u>
Total	\$	<u><u>49,956</u></u>

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash	\$	24,649
Other current assets		21,640
Land, buildings and equipment		647
Intangibles and other assets		1,799
Accounts payable, accrued compensation and other current liabilities		<u>(24,454)</u>
Total identifiable net assets assumed		24,281
Noncontrolling interest recognized		(23,731)
Goodwill		<u>49,406</u>
Total	\$	<u><u>49,956</u></u>

The following are the results of PSW in 2022 that have been included in the consolidated statement of operations and statement of changes in net assets from the acquisition date for the year ended December 31, 2022:

	<u>2022</u>
Total operating revenues	\$ 36,305
Excess of revenue over expenses	1,394

The following unaudited information presents MultiCare's results for the years ended December 31, 2022 and 2021, had the acquisition date been January 1, 2021 for the PSW acquisition:

	<u>2022</u>	<u>2021</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Total operating revenues	4,010,866	3,896,190
(Deficit) Excess of revenues over expenses	(513,848)	300,750

On September 22, 2022, MultiCare Rehabilitation Specialists, P.C. completed the purchase of additional units of Olympic Sports & Spine, PLLC (OSS). Total consideration of this transaction was \$36,959 and increased MHS's ownership to 80.16%. As part of the consideration of this business

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

combination, MHS equity interest was valued at its estimated fair value based on the cash consideration transferred using standard valuation techniques of the equity acquired. As a result of the remeasurement of MHS equity interest in OSS, a loss of \$8,191 was recognized within other operating revenue on the consolidated statement of operations for the year ended December 31, 2022. The assets acquired and liabilities assumed were recorded at their estimated fair value as determined using standard asset appraisal techniques. OSS provides physical, occupational, and massage therapy services in the south Puget Sound area. The following table summarizes the total consideration and the estimated fair values of assets acquired and liabilities assumed as of the acquisition date along with the cash consideration paid.

Consideration:

Cash consideration transferred	\$	7,377
Fair value of MHS's equity interest before business combination		<u>29,582</u>
Total	\$	<u><u>36,959</u></u>

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash	\$	5,988
Other current assets		6,167
Land, buildings and equipment		5,156
Intangibles and other assets		1,453
Accounts payable, accrued compensation and other current liabilities		<u>(2,409)</u>
Total identifiable net assets assumed		16,355
Noncontrolling interest recognized		(9,148)
Goodwill		<u>29,752</u>
Total	\$	<u><u>36,959</u></u>

The following are the results of OSS in 2022 that have been included in the consolidated statement of operations and statement of changes in net assets from the acquisition date for the year ended December 31, 2022:

		<u>2022</u>
Total operating revenues	\$	15,176
Excess of revenue over expenses		1,146

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

The following unaudited information presents MultiCare's results for the years ended December 31, 2022 and 2021, had the acquisition date been January 1, 2021 for the OSS acquisition:

	2022	2021
	(Unaudited)	(Unaudited)
Total operating revenues	\$ 3,994,219	3,862,945
(Deficit) Excess of revenues over expenses	(512,468)	294,959

On April 1, 2021, MHS completed the purchase of Capital Medical Center in Olympia, Washington from an affiliate of LifePoint Health and physician owners to acquire a 100% ownership interest. Capital Medical Center is licensed to operate 107 inpatient hospital beds as well as operates multiple primary care and multispecialty clinics within Thurston County. The acquisition of Capital Medical Center was valued at \$44,662. Assets and liabilities purchased included land, buildings, equipment, accounts receivable, intangibles and other assets offset by accounts payable, accrued compensation, other current liabilities and other liabilities and were recorded at their estimated fair values as determined based on standard asset appraisal techniques. MHS hired substantially all of the employees previously employed by Capital Medical Center. The following table summarizes the estimated fair values of assets acquired and liabilities assumed as of the acquisition date along with the cash consideration paid.

Recognized amounts of identifiable assets acquired and liabilities assumed:

Patient accounts receivable	\$ 13,500
Other current assets	3,628
Land, buildings and equipment	30,551
Intangibles and other assets	8,915
Accounts payable, accrued compensation and other current liabilities	(8,695)
Other liabilities	(3,295)

Total identifiable net assets assumed 44,604

Recognized amount of goodwill assumed:

Goodwill	58
Total	\$ 44,662

Total cash consideration transferred \$ 39,173

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

On December 20, 2021, MHS completed a separate purchase of land and buildings associated with the Capital Medical Center hospital campus and several surrounding clinic offices from an affiliate of Medical Properties Trust (MPT). The acquisition was valued at \$135,000 of land, buildings and other related assets acquired.

Recognized amounts of identifiable assets acquired:

Land	\$	20,053
Buildings		114,069
Leasehold improvements		163
Intangible assets		715
Total		135,000
Transaction expenses		3,148
Total cash consideration transferred	\$	<u>138,148</u>

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of MHS after elimination of all significant intercompany accounts and transactions.

(c) Use of Estimates

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

(d) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid instruments with maturities of three months or less at the date of purchase. Cash equivalents and investments that are held by outside investment managers or restricted per contractual or regulatory requirements are classified as investments on the consolidated balance sheets.

(e) Accounts Receivable

Accounts receivable are primarily comprised of amounts due for healthcare services from patients and third-party payors and are recorded net of amounts for contractual adjustments and implicit price concessions.

(f) Supplies Inventory

Supplies inventory consists of pharmaceutical, medical-surgical, and other supplies generally used in the operations of MHS. Supplies inventory is stated at lower of cost or net realizable value using the

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

average cost method, except for pharmacy, which uses the first-in, first-out (FIFO) method. Obsolete and unusable items are expensed at the time such determination is made.

(g) Donor Restricted Assets

The majority of the donor restricted assets are invested in MHS' investments and are stated at fair value or estimated fair value. Donor restricted assets that are held separately from MHS' investments include perpetual trusts and charitable remainder unitrusts, where MHS is the beneficiary but not the trustee, that are invested in mutual funds, fixed income securities, and equity securities. Those with readily determinable fair values are stated at fair value. Those investments for which quoted market prices are not readily determinable are carried at values provided by the respective investment managers or trustees, which management believes approximates fair value.

Charitable gift annuities, which are included in donor restricted assets, totaled \$1,749 and \$2,308 at December 31, 2022 and 2021, respectively. MHS has recorded a corresponding payable of \$1,301 and \$775 at December 31, 2022 and 2021, respectively, to pay for estimated future obligations to beneficiaries. The current portion of these obligations is included in accounts payable and accrued expenses and the long-term portions are included in other liabilities, net in the accompanying consolidated balance sheets. According to Washington State law, MHS, as a distinct legal entity holding charitable gift annuities, is required to maintain unrestricted net assets of at least \$500, which MHS has done for each of the periods presented.

(h) Investments

MHS accounts for its investment portfolio as a trading portfolio, therefore, investments in fixed income securities, equity securities, and commingled trusts with a readily determinable fair value are recorded at fair value, which are determined based on quoted market prices or prices with observable inputs obtained from national securities exchanges or similar sources. Other investments, including limited partnerships, commingled real estate trust funds, limited liability partnerships, and hedge funds are carried at net asset value (NAV) provided by the respective investment managers, which management believes approximates fair value. Valuations provided by investment managers consider variables such as valuation and financial performance of underlying investments, quoted market prices for similar securities, recent sale prices of underlying investments, and other pertinent information. Management reviews the valuations provided by investment managers and believes that the carrying values of these financial instruments are reasonable estimates of fair value.

Realized gains and losses are recorded using the average cost method. Investment income or loss (including realized gains and losses on investments, change in unrealized gains or losses, interest, and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law.

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Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

(i) Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. Depreciation expense is computed using the straight-line method over the following estimated useful lives of the assets:

Buildings	5–80 years
Land improvements	8–20 years
Equipment	3–30 years

MHS capitalizes all software implementation costs that meet the criteria for capitalization, including those that relate to a service contract (e.g., hosting arrangement). The capitalized software implementation costs are reflected within property, plant and equipment in the consolidated balance sheets. These costs are amortized together with the costs of the related software license; however, the implementation costs related to a service arrangement are amortized over the term of the arrangement. The amortization period for all capitalized implementation costs is generally 10 years.

Maintenance and repairs are charged to operations as they occur. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Gains upon sale or retirement of property, plant, and equipment are included in other operating revenue whereas losses are included in other expenses. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of constructing those assets.

MHS assesses potential impairments to its long-lived assets as well as its intangible assets, as described below, when there is evidence that events or changes in circumstances indicate that an impairment has been incurred. These changes can include a deterioration in operating performance, a reduction in reimbursement rates from government or third-party payors or a change in business strategy. An impairment charge is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. In 2022 and 2021, there were no impairment charges.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(j) Leases

Management reviews contracts in order to identify leases and properly classify leases as either operating or financing. MHS is a lessee of various equipment and facilities under noncancelable operating and financing leases. Operating and financing right-of-use (ROU) liabilities are recognized based on the net present value of lease payments over the lease term at the commencement date of the lease and are reduced by payments made on each lease on the straight-line basis. Since most of

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

the leases do not provide an implicit rate of return, MHS uses its incremental borrowing rate based on information available at the commencement date of the lease in determining the present value of lease payments. Generally, MHS cannot determine the interest rate implicit in the lease because it does not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, MHS generally uses its incremental borrowing rate as the discount rate for the lease. MHS' incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments using similar terms. Leases with an initial term of 12 months or less are not recorded on the balance sheet; rather, rent expense for these leases is recognized on a straight-line basis over the lease term, or when incurred if a month-to-month lease.

If a lease contains a renewal option at the commencement date and it is considered reasonably certain that the renewal option will be exercised by management to renew the lease, the renewal option payments are included in MHS' net minimum lease payments used to determine the right-of-use lease liabilities and related lease assets. All other renewal options are included in right-of-use lease liabilities and related lease assets when they are reasonably certain to be exercised.

All lease agreements generally require MHS to pay maintenance, repairs, property taxes and insurance costs, which are variable amounts based on actual costs incurred during each applicable period. Such costs are not included in the determination of the ROU lease liability or ROU lease asset. Variable lease cost also includes escalating rent payments that are not fixed at commencement but are based on an index that is determined in future periods over the lease term based on changes in the Consumer Price Index or other measure of cost inflation.

Variable lease payments associated with MHS' leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented in other expenses in the consolidated statement of operations and changes in net assets.

MHS has elected the practical expedient to not separate lease components from non-lease components related to its real estate leases.

(k) Goodwill and Intangible Assets

Goodwill is an asset representing the future economic benefits arising from the difference in the fair value of the business acquired and the fair value of the identifiable and intangible net assets acquired in a business combination. Indefinite-lived intangible assets are assets that are not amortized because there is no foreseeable limit to cash flows generated from them.

If it is more likely than not that goodwill is impaired, MHS records the amount that the carrying value exceeds the fair value as an impairment charge. Goodwill is not amortized and along with indefinite-lived intangible assets is evaluated at least annually for impairment. There were no impairment charges recognized during the years ended December 31, 2022 or 2021.

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

The following table summarizes the balances of goodwill and intangible assets at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Goodwill	\$ 232,085	152,927
Intangible assets, net of accumulated amortization of \$7,035 and \$10,343, respectively	<u>21,189</u>	<u>19,136</u>
Total	<u>\$ 253,274</u>	<u>172,063</u>

The balance sheet as of December 31, 2022 includes goodwill recognized as part of the PSW and OSS transactions in the amounts of \$49,406 and \$29,752, respectively, and intangible assets recognized of \$1,719 and \$1,421, respectively.

Amortizing intangible assets are comprised of certificates of need, license agreements, trade names and lease arrangements, which all have finite useful lives. Amortization expense is recorded on a straight-line basis over the estimated useful life of the assets, which ranges from three to thirty years, associated with the nature of the intangible asset. Amortization expense was \$1,474 and \$3,544 for the years ended December 31, 2022 and 2021, respectively.

(l) Investment in Joint Ventures

MHS maintains ownership in certain joint ventures related to imaging, office buildings, behavioral health and other healthcare focused activities and accounts for these joint ventures under the equity method of accounting. As of December 31, 2022 and 2021, MHS held ownership interests in 26 and 21 joint ventures, respectively. Investment in joint ventures is included in other assets, net in the accompanying consolidated balance sheets. Loss on joint ventures for the year ended December 31, 2022 was \$7,032 associated with several joint ventures. Gain on joint ventures for the year ended December 31, 2021 was \$513. Gains and losses are included in other operating revenue on the consolidated statements of operations and changes in net assets.

(m) Estimated Third-Party Payor Settlements

Medicare cost reports are filed annually by MHS with the Medicare intermediary and are subject to audit and adjustment prior to settlement. Estimates of net settlements due to Medicare were \$4,781 and \$4,634 as of December 31, 2022 and 2021, respectively, and have been recorded within accounts payable and accrued expenses in the accompanying consolidated balance sheets. Third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, based upon the amount of the final settlements. Patient service revenue decreased by \$148 and \$1,178 in 2022 and 2021, respectively to reflect changes in the estimated Medicare settlements for prior years.

(n) Interest Rate Swaps

MHS maintains several interest rate swap agreements as a means of hedging its exposure to variable-based interest rates and fluctuations in cash flows as part of its overall interest rate risk

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

management strategy. All MHS interest rate swaps are recorded at fair value. The accounting for changes in the fair value of these swaps depends on whether those had been designated as cash flow hedges. As of December 31, 2022 and 2021, none of MHS' interest rate swaps were designated as cash flow hedges and therefore, the changes in fair value are recognized and included in other income (loss) on the consolidated statements of operations and changes in net assets. These swaps have notional amounts totaling approximately \$709,000 and expire starting in August 2027 through August 2049. The majority of the swaps have the economic effect of fixing the LIBOR-based variable interest rate on an equivalent amount of MHS' outstanding floating rate principal debt.

Under master netting provisions of the International Swap Dealers Association (ISDA) agreement with each of the counterparties, MHS is permitted to settle with the counterparties on a net basis. However, due to the nature of the specific swap arrangements in MHS' interest rate swap portfolio, the fair value of interest rate swap assets and swap liabilities are presented on a gross basis on the consolidated balance sheets.

(o) Net Assets with Donor Restrictions

Gifts are reported as support with donor restrictions if they are received with donor stipulations that restrict the use of the donated assets to a specific time or purpose or have been restricted by donors and are maintained by MHS in perpetuity. When restricted funds to be used for operations are expended for their restricted purposes or by the occurrence of the passage of time, these amounts are released from restrictions for operations and are classified as revenues, gains, and other support without donor restrictions. When restricted funds are expended for the acquisition of property, plant, and equipment, these amounts are recognized in net assets without donor restrictions as net assets released from restriction – capital acquisitions.

MHS applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, related to using the present value technique to measure fair value of pledges receivable. In accordance with ASC Topic 820, MHS has applied the expected present value technique to pledges received after January 1, 2009 that adjusts for a risk premium to take into account the risks inherent in those expected cash flows. Pledges of financial support are recorded as pledges receivable when unconditional pledges are made and are stated at net realizable value. Pledges are reported net of an allowance for uncollectible pledges and pledges to be collected in future years are reflected at a discounted value using a weighted average discount rate. As of December 31, 2022 and 2021, MHS has recorded \$21,265 and \$20,305, respectively, of net pledge receivables, which are included in donor-restricted assets in the accompanying consolidated balance sheets. As of December 31, 2022, \$12,683 of pledges are due in one year or less and \$8,582 in two to eight years.

(p) Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which MHS expects to receive in exchange for providing patient services. These amounts are due from patients, third-party payors, and others and include the variable consideration for retroactive adjustments to revenue due to final settlement of audits, reviews, and investigations. MHS bills the patient and third-party payors

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

several days after the services are performed or when the patient is discharged from the facility, whichever is later.

(q) Hospital Safety Net Assessment

The State of Washington (the State) has a safety net assessment program involving Washington State hospitals to increase funding from other sources and obtain additional federal funds to support increased payments to providers for Medicaid services. In connection with this program, MHS recorded increases in patient service revenue of \$89,946 and \$89,738 for 2022 and 2021, respectively, and incurred assessments of \$63,961 and \$64,570 for 2022 and 2021, respectively, which were recorded in other operating expenses in the accompanying consolidated statements of operations and changes in net assets. MHS has outstanding receivables of \$17,287 and \$16,737 associated with this program as of December 31, 2022 and 2021, respectively, which are included with accounts receivable on the consolidated balance sheets.

(r) Uncompensated and Undercompensated Care

MHS provides a variety of uncompensated and undercompensated healthcare services to the communities it serves within the purview of its mission. Because MHS does not pursue collection of amounts determined to qualify as uncompensated care, MHS has determined that it has provided implicit price concessions to uninsured patients and patients with other uninsured balances. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amount MHS expects to receive based on its historical collections from these patients. Patients who meet the criteria of MHS' uncompensated care policy are eligible to receive these services without charge or at an amount less than MHS' established rates. Such amounts determined to qualify as charity care are not reported as revenue. The State provides guidelines for charity care provided by hospitals in the state. Hospitals are recommended to provide full charity care to patients who meet 100% of the federal poverty guidelines and a lesser amount to patients who meet up to 200% of the federal poverty guidelines. MHS provides full charity care to patients who meet 300% of the federal poverty guidelines and also provides uncompensated care on a sliding scale for patients whose income is between 301% and 500% of the federal poverty guidelines for true self-pay patients and patients with deductibles and coinsurance amounts. The estimated cost of charity care provided was approximately \$52,000 and \$48,000 in 2022 and 2021, respectively. The estimated cost of uncompensated and undercompensated services provided to patients covered under Medicaid in excess of payments received was approximately \$424,000 and \$300,406 in 2022 and 2021, respectively. These cost estimates are calculated based on the overall ratio of costs to charges for MHS.

(s) Other Operating Revenue

Other operating revenue includes revenue from cafeteria sales, retail pharmacy, laboratory revenue from community providers, medical office rental income, contributions without donor restrictions, grant revenue, contracted behavioral healthcare revenue, capitated revenue, and other miscellaneous revenue.

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(Dollars in thousands)

(t) Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in net assets without donor restrictions, which are excluded from the excess of revenues over expenses, primarily include changes in accrued pension asset, net assets released from restrictions for capital expenditures, and capital assets received.

(u) Federal Income Taxes

ASC Subtopic 740-10, *Income Taxes*, clarifies the accounting for uncertainty in income taxes recognized in MHS' consolidated financial statements. This topic also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. Only tax positions that meet the "more-likely than-not" recognition threshold at the effective date may be recognized or continue to be recognized upon adoption. In addition, this topic provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Other than Medis, Inc., Physicians of Southwest Washington, LLC and Olympic Sports & Spine, PLLC, which are all taxable entities, all of the other entities have obtained determination letters from the Internal Revenue Service that they are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in 501(c)(3) of the Internal Revenue Code, except for tax on unrelated business income.

(v) Self-Insurance Reserves

MHS is self-insured with respect to professional and general liability, workers compensation and medical and other health benefits with excess insurance coverage over self-insured retention limits. MHS records insurance liabilities for these specific items by using third party actuarial calculations and certain assumptions and inputs such as MHS historical claims experience and the estimated amount of future claims that will be incurred.

(w) New and Pending Accounting Standards

In June 2016, FASB issued Accounting Standards Update (ASU) 2016-13 and in November 2019, issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this update require that financial assets are measured at amortized cost basis and presented at the net amount expected to be collected. This eliminates the probable initial recognition threshold in current GAAP and, instead, reflects an entity's current estimate of all expected credit losses and broadens the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The provisions of this ASU are effective for MHS for the year beginning on January 1, 2023. MHS does not expect the adoption of this ASU to have a material effect on its consolidated financial statements.

In April 2019, FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. The amendments in this update are divided into four separate topics that discuss the details of the improvement areas and the amendments made to the Codification for these improvement areas. Topics 1, 2 and 5 in this ASU relate specifically to ASU 2016-13, which is effective for MHS for the year beginning January 1, 2023. Topics 3 and 4 in this ASU have been evaluated and are not

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applicable to MHS. MHS does not expect the adoption of this ASU to have a material effect on its consolidated financial statements.

In March 2020, FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the effects of Reference Rate Reform on Financial Reporting*. The amendments in this update provide practical expedients to contract modifications when it is being modified due to the replacement of a reference rate within the contract. The provisions of this ASU are effective immediately and will be available through December 31, 2022. Modifications completed after December 31, 2022 must use current guidance instead of the provisions in this ASU. MHS made all necessary contract modifications in 2022 and the adoption of this ASU did not have a material effect on its consolidated financial statements.

(2) Coronavirus (COVID-19) Impact

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law and on March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law. Both the CARES Act and ARPA were aimed to direct economic assistance for American workers, families, and small businesses, and preserve jobs for American industries. The COVID-19 pandemic impacted all hospitals and physician offices throughout the health system.

The CARES Act and ARPA require the amount of funding received to be validated, which requires management to quantify lost revenues and increased expenses associated with the pandemic. The CARES Act authorized funding to be distributed under the Provider Relief Fund (PRF) and the Coronavirus Relief Fund (CRF). MHS has recognized revenue associated with the PRF, CRF and ARPA funding according to the terms and conditions of the CARES Act and ARPA, and as contribution revenue under FASB ASC 958-605. Refunding of amounts received may be required by the CARES Act if a receiving entity is unable to quantify the financial losses intended to be covered by funding. MHS has determined that it is able to justify retaining all funding received and has not recorded any liabilities as of December 31, 2022 and 2021 for potential repayment of funds received.

MHS has filed applications and obtained reimbursement of additional expenses from the Federal Emergency Management Agency (FEMA) based on criteria due to the national emergency declaration made due to COVID-19. MHS has submitted funding applications with FEMA that covers costs incurred in order to respond to the COVID-19 pandemic and will apply for additional funding until the national disaster declaration is no longer in effect.

The following table shows the funding that has been received to prepare and respond to COVID-19 and recognized as other operating revenue for the years ended December 31, 2022 and 2021:

Sources of external relief funding	2022	2021	Total
CARES Act Provider Relief Fund	\$ —	176,448	176,448
American Rescue Plan Rural Funds	—	5,284	5,284
FEMA	14,578	1,405	15,983
Total	\$ 14,578	183,137	197,715

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(3) Revenue from Contracts with Customers

Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by MHS and are recognized either over time or at a point in time. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred through a point in time in relation to total actual charges incurred. MHS believes that this method provides a useful depiction of the provision of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospitals or clinics receiving inpatient or outpatient services. MHS measures an inpatient performance obligation from time of admission to time of discharge and an outpatient performance obligation from the start of the outpatient service to the completion of the outpatient service. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided to patients and customers.

MHS has elected to apply the optional exemption in ASC 606-10-50-14a as all of MHS' performance obligations related to contracts with a duration of less than one year. Under this exemption, MHS was not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Any unsatisfied or partially unsatisfied performance obligations are completed within days or weeks of the end of the year.

MHS determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with MHS policy, and implicit price concessions provided to uninsured patients. MHS determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies and historical experience. MHS determines its estimate of implicit price concessions based on its historical collection experience with each class of patients.

Contractual agreements with third-party payors provide for payments at amounts less than MHS' established charges. A summary of the payment arrangements with major third-party payors is as follows:

- Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, which provides for reimbursement based on Medicare Severity Diagnosis-Related Groups (MS-DRGs). These rates vary according to a patient classification system that is based on clinical diagnosis, acuity, and expected use of hospital resources. The majority of Medicare outpatient services is reimbursed under a prospective payment methodology, the Ambulatory Payment Classification System (APCs), or fee schedules.
- Medicaid – Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment system similar to Medicare; however, Medicaid utilizes All Payor Refined Diagnosis-Related Groups (APR-DRGs) as opposed to Medicare's MS-DRGs. The majority of Medicaid outpatient services is reimbursed under a prospective payment methodology, the Enhanced Ambulatory Patient Groups (EAPG), or fee schedules.
- Other – MHS has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to MHS under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates and fee schedules.

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Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements with the government. Compliance with such laws and regulations may also be subject to future government exclusion from the related programs. There can be no assurance that regulatory or governmental authorities will not challenge MHS' compliance with these laws and regulations, and it is not possible to determine the impact, if any, that such claims or penalties would have upon MHS. In addition, the contracts with commercial payors also provide for retroactive audit and review of claims that can reduce the amount of revenue ultimately received.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the current estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled and no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price were not significant in 2022 or 2021.

Generally, patients who are covered by third-party payors are responsible for related deductibles and co-insurance, which vary in amount. MHS also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. MHS estimates the transaction price for patients with deductibles and co-insurance from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charges by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Additional revenue due to changes in estimates of implicit price concessions, discounts, and contractual adjustments for prior years were not significant for 2022 or 2021. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay and deemed uncollectable are recorded as bad debt expense.

Consistent with MHS' mission, care is provided to patients regardless of their ability to pay. MHS has determined that it has provided implicit price concessions to uninsured patients and patients with other uninsured balances. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amount MHS expects to receive based on its collection experience with those patients. Patients who meet the criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as uncompensated care are not reported as revenue.

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MHS has determined that the best depiction of its revenue is by its mix of payors as this shows the amount of revenue recognized from each portfolio. Patient service revenue disaggregated by payor for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Payors:		
Medicare	\$ 1,068,131	947,979
Medicaid	623,026	554,039
Premera	521,521	501,370
Regence	392,750	334,844
Aetna	192,352	202,379
Kaiser Permanente	134,237	128,538
United Healthcare	133,716	132,535
First Choice	117,366	119,596
Self-pay	23,149	25,450
Other	559,640	557,961
	<u>\$ 3,765,888</u>	<u>3,504,691</u>

MHS has elected to apply the practical expedient under ASC 340-40-25-4 and therefore, all incremental customer contract acquisition costs are expensed as incurred, as the amortization period of the asset that MHS would have otherwise recognized is one year or less in duration.

(4) Concentration of Credit Risk

MHS grants credit without collateral to its patients, most of whom are residents of the communities it serves and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors at December 31, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
Medicare	35 %	33 %
Medicaid	25	21
Premera	7	10
Regence	6	7
Self-pay	5	7
First Choice	1	1
Health Care Exchange	1	1
Other commercial insurance	20	20
	<u>100 %</u>	<u>100 %</u>

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(5) Fair Value Measurements

(a) Fair Value Hierarchy

In accordance with ASC Topic 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for similar assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical or similar assets or liabilities that MHS could access at the measurement date. Level 1 securities generally include investments in equity securities, mutual funds and certain fixed income securities.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are based upon observable market inputs for the asset or liability, either directly or indirectly. Level 2 securities generally include investments in fixed income securities (composed primarily of government, agency and corporate bonds), and interest rate swaps.
- Level 3 inputs are unobservable market inputs for the asset or liability. Level 3 securities include donor trusts where MHS is not the trustee.

The level in the fair value hierarchy within which a fair value measurement, in its entirety, falls is based on the lowest level input that is significant to the fair value measurement.

ASC Subtopic 820-10 allows for the use of a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by MHS is the Net Asset Value (NAV) per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. Valuations provided by investment managers consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the redemption price. MHS reviews valuations and assumptions provided by investment managers for reasonableness and believes that the carrying amounts of these financial instruments approximate the estimated of fair value of the instrument. Where investments are not presented at fair value, NAV is used as a practical expedient to approximate fair value.

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The following tables present the placement in the fair value hierarchy of investment assets and liabilities that are measured at fair value on a recurring basis and investments valued at NAV at December 31, 2022 and 2021:

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2022			
Assets:				
Trading securities:				
Mutual funds	\$ 927,945	927,945	—	—
Equity securities	8,204	8,204	—	—
Fixed income bond funds	327,965	327,965	—	—
Fixed income governmental obligations	152,312	114,851	37,461	—
Fixed income other	178,595	—	178,595	—
Commingled trust fund – international equity	14,376	—	14,376	—
Donor trusts	29,431	—	—	29,431
Interest rate swaps	23,496	—	23,496	—
Total assets at fair value	1,662,324	\$ 1,378,965	253,928	29,431
Investment assets valued at NAV	403,251			
Total assets at fair value or NAV	\$ 2,065,575			
Liabilities:				
Interest rate swaps	\$ 9,470	—	9,470	—

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Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2021			
Assets:				
Trading securities:				
Mutual funds	\$ 825,254	825,254	—	—
Equity securities	304,915	304,915	—	—
Fixed income bond funds	403,280	403,280	—	—
Fixed income governmental obligations	210,812	141,941	68,871	—
Fixed income other	376,108	—	376,108	—
Commingled trust fund – international equity	172,069	—	172,069	—
Donor trusts	22,455	—	—	22,455
Total assets at fair value	2,314,893	\$ 1,675,390	617,048	22,455
Investment assets valued at NAV	343,651			
Total assets at fair value or NAV	\$ 2,658,544			
Liabilities:				
Interest rate swaps	\$ 119,100	—	119,100	—

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at December 31, 2022 and 2021:

	NAV December 31, 2022	NAV December 31, 2021	Unfunded commitments	Redemption frequency	Redemption notice period
Hedge funds	\$ 125,067	132,637	N/A	Quarterly	60 or 95 business days prior to valuation date
Common trust funds	269,628	199,212	N/A	Daily	1 or more business days prior to valuation date
Limited partnerships	8,556	11,802	1,800	N/A	N/A
Total investments valued at NAV	\$ 403,251	343,651	1,800		

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Hedge funds include investments in hedge fund-of-funds products with certain investment managers. The fair values of the investments in this category have been estimated using the NAV per share of the investment.

Common trust funds include investments in a collective or common trust account that invests funds in an underlying fund or set of funds. The trust account seeks an investment return that approximates the performance of an index as defined by each common trust fund. The fair value of the investments in this category are estimated using the NAV per share of the fund that is derived from the underlying investments in the trust fund.

Limited partnerships include investments in private equity and venture capital funds in both developed and emerging markets with approximately 35% invested in private equity in developed markets, 20% in venture capital in developed markets, and 45% in private equity and venture capital in emerging markets. The fair values of the investments in this category have been estimated using the NAV of MHS' ownership interest in partners' capital. These assets can never be redeemed with the partnerships. Instead, the nature of the investment in this category is that distributions are received through the liquidation of the underlying assets of the partnership.

(b) Interest Rate Swaps

The interest rate swaps are recorded at estimated fair value by using certain observable market inputs that participants would use from closing prices for similar assets. In addition, other valuation techniques and market inputs are used that help determine the fair values of these swaps, which include certain valuation models, current interest rates, forward yield curves, implied volatility and credit default swap pricing.

The fair value of the interest rate swaps liability is included in interest rate swap liabilities on the consolidated balance sheets, and the fair value of the interest rate swap asset is included in other assets, net on the consolidated balance sheets. The fair value gains of these interest rate swaps for the years ended December 31, 2022 and 2021 were \$133,126 and \$35,246, respectively, and are included in gain on interest rate swaps in other (loss) income, net in the consolidated statements of operations and changes in net assets. Also included in the gain (loss) on interest rate swaps is the loss on net cash settlement amounts associated with the swaps of \$5,439 and \$9,373 for the years ended December 31, 2022 and 2021, respectively.

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The following table represents both the fair value and settlement value for the interest rate swap assets and liabilities as of December 31, 2022 and 2021:

		Asset derivatives					
		2022			2021		
	Balance sheet location	Fair value	Settlement value		Balance sheet location	Fair value	Settlement value
Derivative instruments:							
Interest rate sw aps	Other assets, net	\$ 23,496	26,079		Other assets, net	\$ —	—
		Liability derivatives					
		2022			2021		
	Balance sheet location	Fair value	Settlement value		Balance sheet location	Fair value	Settlement value
Derivative instruments:							
Interest rate sw aps	Interest rates sw ap liabilities	\$ 9,470	11,317		Interest rates sw ap liabilities	\$ 119,100	124,921

(6) Donor Restricted Assets and Investments

A summary of donor restricted assets and investments at 2022 and 2021 is as follows:

December 31, 2022			
	Donor restricted assets	Investments	Total
Mutual funds	\$ 20,491	907,454	927,945
Equity securities	181	8,023	8,204
Fixed income securities	14,548	644,324	658,872
Commingled trust fund – international equity	317	14,059	14,376
Hedge funds	2,762	122,305	125,067
Common trust funds	5,954	263,674	269,628
Limited partnerships	190	8,366	8,556
Donor trusts	29,431	—	29,431
Pledge receivables, net and other	45,652	—	45,652
Total	\$ 119,526	1,968,205	2,087,731

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	December 31, 2021		
	Donor restricted assets	Investments	Total
Mutual funds	\$ 8,002	817,252	825,254
Equity securities	2,956	301,959	304,915
Fixed income securities	9,600	980,600	990,200
Commingled trust fund – international equity	1,668	170,401	172,069
Hedge funds	1,286	131,351	132,637
Common trust funds	1,931	197,281	199,212
Limited partnerships	115	11,687	11,802
Donor trusts	22,455	—	22,455
Pledge receivables, net and other	48,762	—	48,762
Total	\$ 96,775	2,610,531	2,707,306

Fixed income securities include mutual funds, corporate bonds, mortgage-backed securities, asset-backed securities, U.S. government obligations, and state government obligations.

(7) Liquidity and Availability of Financial Assets

MHS actively monitors the availability of resources required to meet its operating obligations and other contractual commitments, while also striving to maximize investment returns of its available funds. To help meet its general obligations, MHS can also access the credit markets as a means of producing liquidity, if needed. MHS draws income, appreciation and distributions from its endowment fund up to 5% of the endowment average account value annually, as applicable donor restrictions are met, as another way of providing liquidity. For purposes of analyzing resources available to meet general expenditures over a 12-month period, MHS considers all expenditures related to its ongoing activities to provide integrated healthcare delivery as well as the conduct of services undertaken to support these activities to be general expenditures.

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At December 31, 2022 and 2021, MHS' financial resources are as follows:

	2022	2021
Cash and cash equivalents	\$ 542,067	308,732
Accounts receivable	511,727	460,569
Other current assets, net	165,586	96,361
Donor restricted assets	119,526	96,775
Investments	1,968,205	2,610,531
	<u>3,307,111</u>	<u>3,572,968</u>
Less prepaid assets included in other current assets, net	(58,353)	(37,444)
Less donor restricted assets	(119,526)	(96,775)
Less investments with redemption limitations of greater than one year	<u>(8,556)</u>	<u>(11,802)</u>
Total financial assets available for general expenditures	\$ <u>3,120,676</u>	<u>3,426,947</u>

In addition to financial assets available to meet general expenditures over the next 12 months, MHS operates mostly using revenues, gains and other support without donor restrictions and anticipates collecting sufficient revenues to cover general expenditures. MHS also has a \$200,000 line of credit available for general expenditures, if needed (note 15).

(8) Property, Plant, and Equipment, Net

A summary of property, plant, and equipment at December 31, 2022 and 2021 is as follows:

	2022	2021
Land and land improvements	\$ 164,041	138,910
Buildings	2,360,383	2,313,543
Equipment	1,051,005	940,116
	<u>3,575,429</u>	<u>3,392,569</u>
Less accumulated depreciation	<u>(1,640,005)</u>	<u>(1,500,929)</u>
	1,935,424	1,891,640
Construction in progress	173,829	118,494
Property, plant, and equipment, net	\$ <u>2,109,253</u>	<u>2,010,134</u>

Total depreciation and amortization expense for the years ended December 31, 2022 and 2021 was \$140,892 and \$126,307, respectively. Depreciation expense charged to operations for the years ended

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December 31, 2022 and 2021 amounted to \$139,145 and \$122,293, respectively. Depreciation expense charged to operations for the year ended December 31, 2021 is net of a \$48,094 reduction in expense as part of the change in estimated useful lives.

(9) Other Assets, Net

Other assets are as follows at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Investment in joint ventures	\$ 58,977	77,951
Deferred compensation plan assets held in trust (note 12)	87,039	98,789
Accrued pension asset (note 12)	36,428	60,951
Self-insured retention receivables, net of current portion (notes 13 and 14)	17,462	22,558
Net investment in lease (note 17(b))	22,655	23,172
Notes receivable (note 10)	75,284	75,546
Interest rate swaps (note 5(b))	23,496	—
Other	8,467	23,595
Other assets, net	<u>\$ 329,808</u>	<u>382,562</u>

Deferred compensation plan assets held in trust are participant-managed investments consisting of equity and fixed income mutual funds with prices quoted in active markets.

(10) Notes Receivable

In December 2020, MHS executed a promissory note with Astria Health for a \$75,000 loan. The loan bears a fixed interest rate of 9.5% with payments due June 30 and December 31 of each year. In December 2022, the credit agreement was amended to extend the maturity date. The loan matures in December 2025.

(11) Other Liabilities, Net

Other liabilities are as follows at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Professional liability, net of current portion (note 13)	\$ 103,813	89,628
Deferred compensation liability (note 12)	87,039	98,789
Workers' compensation liability, net of current portion (note 14)	15,444	15,454
Other	24,749	4,436
Other liabilities, net	<u>\$ 231,045</u>	<u>208,307</u>

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(12) Retirement Plans

(a) Defined Benefit Pension Plan

MHS operates one qualified defined benefit pension plan (the Plan) covering eligible employees. The Plan was closed to new employees effective after July 31, 2002. The benefits are based on years of service and the employee's highest five consecutive years of compensation. MHS contributions to the Plan vary from year to year, but the minimum contribution required by law has been provided in each year. Effective December 31, 2016, participants no longer accrue pension benefits under the Plan.

The following tables set forth the changes in projected benefit obligations, changes in fair value of plan assets, and components of net periodic benefit costs for the Plan, which has measurement dates of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Change in projected benefit obligation:		
Projected benefit obligations at beginning of year	\$ 663,039	715,286
Service cost	650	650
Interest cost	19,329	18,786
Actuarial gain	(142,861)	(23,106)
Expected administrative expenses	(650)	(650)
Benefits paid	<u>(85,170)</u>	<u>(47,927)</u>
Projected benefit obligations at end of year	<u>\$ 454,337</u>	<u>663,039</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 723,990	760,876
Actual (loss) gain on plan assets	(147,327)	11,700
Actual administrative expenses	(728)	(659)
Benefits paid	<u>(85,170)</u>	<u>(47,927)</u>
Fair value of plan assets at end of year	<u>\$ 490,765</u>	<u>723,990</u>
Funded status recognized in consolidated balance sheets consist of:		
Asset for pension benefits	\$ 36,428	60,951
Amount recognized in net assets without donor restrictions:		
Net loss	106,367	90,859
	<u>2022</u>	<u>2021</u>
Weighted average assumptions used to determine benefit obligations as of December 31:		
Discount rate	5.50 %	3.00 %

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The expected return on plan assets assumption is based upon an analysis of historical long-term returns for various investment categories as measured by appropriate indices. These indices are weighted based upon the extent to which plan assets are invested in the particular categories in arriving at MHS' determination of a composite expected return. An actuary reviews the assumptions annually for reasonableness.

The components of net periodic benefit cost are as follows during the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Components of net periodic benefit cost:		
Service cost	\$ 650	650
Interest cost	19,329	18,786
Expected return on plan assets	(30,858)	(29,726)
Amortization of net actuarial loss	5,335	16,205
Settlement cost	14,559	3,534
	<u>\$ 9,015</u>	<u>9,449</u>
	<u>2022</u>	<u>2021</u>
Weighted average assumptions used to determine benefit obligation as of December 31:		
Discount rate	3.00 %	2.70 %
Expected return on plan assets	4.50	4.50

During the years ended December 31, 2022 and 2021, the Plan made lump-sum cash payments (settlements) to plan participants and in exchange the Plan was relieved of all remaining liabilities of future payments to those plan participants. These settlements are included in benefits paid within the change in projected benefit obligation. The total amount of these settlements exceeded the total service costs and interest costs for the years ended December 31, 2022 and 2021 and the pro-rata portion of the remaining balance in net assets without donor restrictions was recognized as part of net periodic benefit costs.

The accumulated benefit obligation for the Plan was \$454,337 and \$663,039 at December 31, 2022 and 2021, respectively.

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(i) Estimated Future Benefit Payments

The following benefits payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Pension benefits
2023	\$ 33,692
2024	33,463
2025	34,284
2026	33,643
2027	34,680
2028–2032	165,364

(ii) Plan Assets

The following tables set forth by level, within the fair value hierarchy, the Plans' investments at fair value:

Fair value measurements at reporting date using				
	December 31, 2022	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 8,926	8,926	—	—
Trading securities:				
Mutual funds	91,812	91,812	—	—
Fixed income bond funds	5,100	4,921	179	—
Fixed income governmental obligations	187,978	140,834	47,144	—
Fixed income other	162,979	13,368	149,611	—
Commingled trust fund – international equity	12,729	—	12,729	—
	469,524	\$ 259,861	209,663	—

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Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2022			
Broker receivables	\$ 38,910			
Broker payables	(85,854)			
Total assets at fair value	422,580			
Investments valued at NAV	68,185			
Total assets at fair value or NAV	\$ 490,765			

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2021			
Assets:				
Cash and cash equivalents	\$ 11,324	11,324	—	—
Trading securities:				
Mutual funds	124,670	124,670	—	—
Fixed income bond funds	97,505	97,505	—	—
Fixed income governmental obligations	209,474	177,503	31,971	—
Fixed income other	202,017	—	202,017	—
Commingled trust fund – international equity	16,625	—	16,625	—
	661,615	\$ 411,002	250,613	—

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	Fair value measurements at reporting date using			
	December 31, 2021	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Broker receivables	\$ 5,983			
Broker payables	(34,584)			
Total assets at fair value	633,014			
Investments valued at NAV	90,976			
Total assets at fair value or NAV	\$ 723,990			

There were no significant transfers into or out of Level 1 or Level 2 financial instruments during the years ended December 31, 2022 and 2021.

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at December 31, 2022 and 2021:

	NAV December 31, 2022	NAV December 31, 2021	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Absolute return funds	\$ 63,783	84,911	N/A	Monthly	5 business days prior to valuation date
Limited partnerships	4,402	6,065	850	N/A	N/A
Total investments valued at NAV	\$ 68,185	90,976	850		

Absolute return fund investments consist primarily of listed equity, equity-related and debt securities, including exchange-traded funds, other securities and other pooled investment vehicles. These investments use derivatives or other instruments for both investment and hedging purposes and may take long and/or short positions, and the derivative investments may include but are not restricted to futures, options, swaps, and forward currency contracts.

Limited partnerships include investments in private equity and venture capital in both developed and emerging markets with approximately 35% invested in private equity in developed markets,

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20% in venture capital in developed markets, and 45% in private equity and venture capital in emerging markets. The fair values of the investments in this category have been estimated using the NAV of MHS' ownership interest in partners' capital. These assets can never be redeemed with the partnerships. Instead, the nature of the investment in this category is that distributions are received through the liquidation of the underlying assets of the partnership.

The defined benefit plan weighted average asset allocations at December 31, 2022 and 2021 by asset category are as follows:

	<u>2022</u>	<u>2021</u>
Asset category:		
Domestic equities	13 %	12 %
International equities	9	7
Fixed income securities	77	80
Alternative investments	1	1
	<u>100 %</u>	<u>100 %</u>

(iii) Investment Objectives

The target asset allocations for each asset class are set based on the achieved funding levels for the Plan and are summarized below:

	<u>2022</u>	<u>2021</u>
Asset category:		
Domestic equities	12 %	12 %
International equities	8	8
Fixed income securities	80	80
	<u>100 %</u>	<u>100 %</u>

(iv) Investment Categories

Equities

The strategic role of domestic equities is to provide higher expected market returns (along with international equities) of the major asset classes; maintain a diversified exposure within the U.S. stock market using multimanager portfolio strategies; and achieve returns in excess of passive indices using active investment managers and strategies.

The strategic role of international equities is to provide higher expected market return premiums (along with domestic equities) of the major asset classes and diversify the Plans' overall equity exposure by investing in non-U.S. stocks that are less than fully correlated to domestic equities with similar return expectations; to maintain a diversified exposure within the international stock

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market through the use of multimanager portfolio strategies; and achieve returns in excess of passive indices through the use of active investment managers and strategies.

The strategic role of emerging markets is to diversify the portfolio relative to domestic equities and fixed income investments and to specifically include equity investment in selected global markets and may also include currency hedging for defensive purposes.

Fixed Income

The strategic role of fixed income securities is to diversify the Plan's equity exposure by investing in fixed income securities that exhibit a low correlation to equities and lower volatility; maintain a diversified exposure within the U.S. fixed income market using multimanager portfolio strategies; and achieve returns in excess of passive indices through the use of active investment managers and strategies. It also provides effective diversification against equities and a stable level of cash flow.

Alternative Investments

The strategic role of alternative investments is for diversification relative to equities and fixed income investments, to add absolute return using hedging strategies, and to achieve expected return premiums over longer holding periods. Alternative investments include investments in equity, equity-related and debt securities, including exchange-traded funds, other securities and other pooled investment vehicles, hedge funds and private equities and are under the supervision and control of investment managers. Hedge funds include investments in a variety of instruments including stocks, bonds, commodities, and a variety of derivative instruments. Private equities consist primarily of equity investments made in companies that are not quoted on a public stock market, which can include U.S. and non-U.S. venture capital, leveraged buyouts, and mezzanine financing.

(b) Defined Contribution Plans

MHS currently maintains three defined contribution plans including the MHS 401(a) Retirement Account Plan (RAP), the MHS 403(b) Employee Savings Plan, and the MHS 401(k) Plan. Most employees assigned to work at Deaconess Hospital, Valley Hospital, Rockwood Clinic and Capital Medical Center are eligible for participation in the MHS 401(k) Plan, which is funded by both MHS and employee contributions. The MHS 403(b) Employee Savings Plan is 100% funded by employee contributions, and the RAP is 100% funded by MHS contributions.

MHS' funding for the defined contribution plans is based on certain percentages of the employees' base pay and/or a percentage of their deferred contributions. Employer contributions to the defined-contribution plans for 2022 and 2021 were approximately \$58,000 and \$54,545, respectively, which were included with employee benefits in the accompanying consolidated statements of operations and changes in net assets.

(c) Other

In addition to the defined benefit and defined contribution plans as described above, MHS also maintains several deferred compensation arrangements for the benefit of eligible employees.

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Substantially all amounts that are deferred under these arrangements are held in trust until such time as these funds become payable to the participating employees.

(13) Professional Liability

MHS maintains a self-insurance program for professional liability with excess coverage over self-insured retention limits provided by commercial insurance carriers. MHS has recorded a liability as of December 31, 2022 and 2021, which comprises estimated deductibles and retentions for known claims at year-end and a liability for incurred but not reported claims based on an actuarially determined estimate.

During 2022, MHS began operations of a wholly owned insurance captive, Commencement Re (the Captive). On September 15, 2022, the Captive took on the risk to self-insure and reinsure certain layers of professional and general liability from MHS.

At December 31, 2022 and 2021, the estimated gross professional liability (including current and long-term portions) was \$128,101 and \$119,073, respectively. The current portion is included in accounts payable and accrued expenses, and the remainder is included in other liabilities, net in the accompanying consolidated balance sheets. MHS has recorded a receivable for amounts to be received from the excess insurance carriers for their portion of the claims (including current and long-term portions) of \$22,754 and \$33,191 as of December 31, 2022 and 2021, respectively. The current amount is included in other current assets, net, and the remainder is included in other assets, net in the accompanying consolidated balance sheets.

(14) Workers' Compensation and Employee Health Benefit Programs

MHS maintains a self-insurance program for workers' compensation with excess coverage over self-insured retention limits provided by commercial insurance carriers. MHS has recorded a liability based on an actuarial estimate of future claims payments. At December 31, 2022 and 2021, the estimated net liability based on future claims cost totaled \$21,470 and \$21,133, respectively. The gross liabilities (including both current and long-term portions) total \$24,836 and \$24,341 as of December 31, 2022 and 2021, respectively. The long-term amounts are included in other liabilities, net, and the current portions are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. These liabilities are secured by a letter of credit with the State of Washington. MHS has recorded a receivable for amounts to be received from excess insurance carriers of \$3,366 and \$3,207 as of December 31, 2022 and 2021, respectively, which is included with other current assets, net and other assets, net for the respective estimated current and long-term portions.

MHS maintains a self-insurance program for employee medical and dental insurance. Employees can elect to be included in the self-insurance plan as a part of their fringe benefit package. Premiums deducted from employees' wages are used in paying a portion of members' medical claims. The estimated liability for claims in 2022 and 2021 was \$12,984 and \$9,632, respectively. These amounts are included in accrued compensation and related liabilities in the accompanying consolidated balance sheets.

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(15) Long-Term Debt

Long-term debt consists of the following at December 31, 2022 and 2021:

	2022	2021
WHCFA Revenue bonds, 2022A	\$ 49,985	—
WHCFA Revenue bonds, 2022B	108,145	—
WHCFA Revenue bonds, 2022C	80,000	—
WHCFA Revenue bonds, 2022D	130,170	—
WHCFA Revenue bonds, 2022 Taxable Private Placement	430,000	—
2020 Taxable bonds	300,000	300,000
2020 OCED financing	57,249	59,289
2019 Term loan	—	35,255
WHCFA Revenue bonds, 2017 Series A and B	314,550	318,220
WHCFA Revenue bonds, 2017 Series C, D, and E	111,010	191,010
	2022	2021
2017 Term loans	\$ —	130,170
WHCFA Revenue bonds, 2015 Series A and B	343,675	348,085
WHCFA Revenue bonds, 2012 Series A	—	60,000
WHCFA Revenue bonds, 2009 Series A and B	—	98,130
Other	19,085	23,106
	1,943,869	1,563,265
Adjusted for:		
Current portion	(18,496)	(43,609)
Bond premiums, discounts, and debt issuance costs	46,764	52,579
Long-term debt, net of current portion	\$ 1,972,137	1,572,235

(a) WHCFA Revenue Bonds, 2022A

In August 2022, MHS issued \$49,985 of 2022 Series A bonds. These bonds were issued as variable rate tax exempt private placement debt with Royal Bank of Canada, with principal payments ranging from \$1,845 in 2040 to final payment of \$20,365 in 2044. The interest rates, which were between 2.43% and 4.45% at December 31, 2022, reset monthly and are based on SIFMA plus a spread.

(b) WHCFA Revenue Bonds, 2022B

In August 2022, MHS issued \$108,145 of 2022 Series B bonds. These bonds were issued as variable rate tax exempt private placement debt with PNC Bank, NA. Principal payments range from \$7,035 in 2040 to \$22,085 in 2045, with a final payment of \$19,715 in 2046 with interest payable semi-annually in February and August, based on SOFR plus a spread.

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(c) WHCFA Revenue Bonds, 2022C

In December 2022, MHS issued \$80,000 of 2022 Series C bonds. These bonds were issued as variable rate tax exempt private placement debt with Banc of America Preferred Funding Corp. The principal is due in full in 2047 with monthly interest payments starting in January 2023, based on SIFMA plus a spread.

(d) WHCFA Revenue Bonds, 2022D

In December 2022, MHS issued \$130,170 of 2022 Series D bonds. These bonds were issued as variable rate tax exempt private placement debt with Bank of America, NA. The principal is due in full in 2047 with monthly interest payments starting in January 2023, based on SOFR plus a spread.

(e) WHCFA Revenue Bonds, 2022 Taxable Private Placement

In August 2022, MHS issued \$430,000 of Series 2022 taxable private placement bonds. The bonds were acquired by various private investors. Included in the issuance are \$130,000 in bonds bearing 4.48% fixed rate interest with principal due in full in 2037, and \$300,000 in bonds bearing 4.75% fixed rate interest with principal due in full in 2052.

(f) 2020 Taxable Bonds

In July 2020, MHS issued \$300,000 of taxable 2020 series bonds. These bonds were issued as fixed rate bonds that bear interest of 2.803%. The principal of \$300,000 is due in 2050, with interest only payments made semiannually in February and August of each year.

(g) 2020 OCED Financing

In June 2020, MHS finalized a sale-leaseback transaction for four off-campus emergency departments (OCED) with total cash proceeds received of \$61,794. Due to the specific terms of the agreement, the lease qualified as a financing type lease. The agreement did not meet the criteria for sale-leaseback accounting treatment and instead is considered a financing liability. The agreement bears an implicit interest rate of 4.64%. Annual principal payments range from \$2,136 in 2023 to \$4,482 in 2039 with a final principal payment of \$390 in 2041.

(h) 2019 Term Loan

In August 2019, MHS entered into a fixed rate term loan agreement with JPMorgan Chase Bank, N.A., with an interest rate of 1.89%. The principal balance of \$35,255 was paid in full in 2022.

(i) Washington Health Care Facility Authority (WHCFA) Revenue Bonds 2017 Series A and B

In November 2017, MHS issued \$333,970 of 2017 Series A and B bonds. These bonds were issued as fixed rate bonds that bear interest ranging from 3.0% to 5.0%. Annual principal payments range from \$4,135 in 2023 to \$62,410 in 2047.

(j) WHCFA Revenue Bonds 2017 Series C, D, and E

In November 2017, MHS entered into a \$111,010 variable rate private placement agreement (Series C and D) with JPMorgan Chase Bank, National Association. The first annual principal payment of

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\$55,505 is due in 2048, with a final principal payment of \$55,505 in 2049. The interest rates, which were between 0.44% and 3.58% at December 31, 2022, reset monthly and are based on 70% of SOFR.

In November 2017, MHS entered into an \$80,000 variable rate private placement agreement (Series E) with Wells Fargo Municipal Capital Strategies, LLC. In December 2022, MHS refunded the 2017 Series E bonds and replaced them with 2022 Series C.

(k) 2017 Term Loans

In November 2017, MHS entered into two \$65,085 variable rate term loan agreements with Wells Fargo Bank, N.A. In December 2022, MHS refunded the 2017 Term Loans and replaced them with 2022 Series D.

(l) WHCFA Revenue Bonds 2015 Series A and B

In April 2015, MHS issued \$373,390 of 2015 Series A and B bonds. Series A and B bonds were issued as fixed rate bonds that bear interest ranging from 2.0% to 5.0%. Annual principal payments range from \$4,295 in 2040 to \$24,085 in 2034 with a final payment of \$8,860 due in 2045.

(m) WHCFA Revenue Bonds 2012 Series A

In November 2012, MHS issued \$60,000 of 2012 Series A bonds. In August 2022, MHS refunded the 2012 Series A bonds and replaced them with 2022 Series B.

(n) WHCFA Revenue Bonds 2009 Series A and B

In May 2009, MHS issued the 2009 Series A and B bonds as variable rate demand bonds for \$50,000 each. The bonds were backed by an irrevocable letter of credit equal to the aggregate principal and interest of the bonds. In July 2012, the 2009 Series A and B bonds were converted to \$98,130 of fixed rate bonds. In August 2022, MHS refunded the 2009 Series A and B bonds and replaced them with 2022 Series A and 2022 Series B.

(o) Other

The other debt listed is primarily made up of debt held by Navos. Of the outstanding debt at December 31, 2022, \$16,531 is associated with certain buildings and other capital assets operated by Navos and is subject to provisions whereby the debt will be forgiven upon compliance with those provisions. These provisions state that Navos maintains the assets that were built or purchased with these notes and maintains their usage when the promissory note was signed for the length specified. If these provisions are not met, the note must be repaid based on the terms of the agreement. The forgivable debt is subject to a forgiveness provision in years 2028 through 2068.

(p) 2022 Line of Credit

In October 2022, MHS entered into a \$200,000 revolving credit agreement with JPMorgan Chase Bank, NA. The term of the line of credit is for 12 months and bears interest at a variable rate based upon SOFR. The line on credit has no draws as of December 31, 2022.

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Revenue bonds issued by MHS through WHCFA are subject to applicable bond indenture agreements, which require that MHS satisfy certain measures of financial performance as long as the bonds are outstanding. These measures include a minimum debt service coverage ratio and a condition that the bonds are secured by a gross receivables pledge. Based on management's assessment of these requirements, MHS is in compliance with these covenants at December 31, 2022 and 2021.

Each fixed-rate revenue bond requires semiannual interest payments on February 15 and August 15 of each year until maturity. These bonds are subject to early redemption by MHS on or after certain specific dates and at certain specific redemption prices as outlined in each bond agreement.

Principal maturities on long-term debt are as follows:

Year ending December 31:		
2023	\$	18,496
2024		21,627
2025		22,704
2026		23,825
2027		46,202
Thereafter		<u>1,811,015</u>
	\$	<u><u>1,943,869</u></u>

A summary of interest costs is as follows during the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest cost:		
Charged to operations	\$ 59,006	50,103
Amortization of bond premiums, discounts, and issuance costs	(2,163)	(2,433)
Capitalized	<u>555</u>	<u>382</u>
	<u>\$ 57,398</u>	<u>48,052</u>

(16) Commitments and Contingencies

Approximately 43% of MHS employees were covered under collective bargaining agreements as of December 31, 2022. These employees provide nursing, nursing support, pharmacy, imaging, lab, inpatient and outpatient therapies, housekeeping, food, laundry, maintenance, and inventory/distribution services to MHS. Collective bargaining agreements have various expiration dates extending through December 2025.

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(17) Leases

(a) Lessee

MHS leases various equipment and facilities under noncancelable operating and finance leases. Lease terms for noncancelable operating leases range from 1 to 18 years, and existing leases have expiration dates through 2037. Lease terms for finance leases range from 1 to 21 years, and existing leases have expiration dates through 2040.

The components of lease cost for the years ended December 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Operating lease cost	\$ 36,768	37,283
Finance lease cost:		
Amortization of right-of-use assets	4,745	9,031
Interest on lease liabilities	802	3,402
Total finance lease cost	5,547	12,433
Short term lease cost	1,503	1,578
Variable lease cost	9,138	9,233
Sublease income	(1,727)	(1,662)
Total lease cost	\$ <u>51,229</u>	<u>58,865</u>

Other information related to leases as of December 31, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
Weighted average remaining lease term (years):		
Operating leases	7.2	6.5
Finance leases	6.0	6.6
Weighted average discount rate:		
Operating leases	4.0 %	4.0 %
Finance leases	4.4	4.4
Operating cash flows from operating leases	\$ (35,805)	(36,688)
Operating cash flows from finance leases	(802)	(3,402)
Financing cash flows from finance leases	(4,499)	(8,645)
Right-of-use assets obtained in exchange for new operating lease liabilities	56,322	36,385
Right-of-use assets obtained in exchange for new finance lease liabilities	3,528	11,948

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Maturities of lease liabilities under noncancelable leases as of December 31, 2022 are as follows:

	Operating leases	Finance leases	Total
For year ended December 31:			
2023	\$ 35,782	5,623	41,405
2024	31,596	5,400	36,996
2025	28,447	3,351	31,798
2026	26,272	873	27,145
2027	20,794	597	21,391
Thereafter	61,729	4,031	65,760
Total undiscounted lease payments	204,620	19,875	224,495
Less present value discount	(27,596)	(2,419)	(30,015)
Total lease liabilities	\$ 177,024	17,456	194,480

(b) Lessor

MHS leases a building to the Alliance for South Sound Health, which does business under the name Wellfound Behavioral Health Hospital (Wellfound). Wellfound is a related party owned 50 percent by MHS. The leased building is owned solely by MHS and is the only asset that MHS leases out as a lessor. The lease has a 20-year initial lease term, with four 5-year extension options. Due to the related party nature of the lease, MHS considers it reasonably certain that Wellfound will exercise its four lease renewal options, and as such, treats the lease as a 40-year lease. There is no purchase option stated in the lease contract. MHS has determined that the lease is a sales-type financing lease, since the expected lease term spans a major portion of the useful life of the building. At December 31, 2022, MHS' other assets, net include a net investment in lease of \$22,655.

Revenue from leases for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Interest income on net investment in finance leases	\$ 1,032	1,048
Variable lease income	28	28
Total lease income	\$ 1,060	1,076

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Future lease payments receivable as of December 31, 2022 are as follows:

Year ended December 31:		
2023	\$	1,227
2024		1,227
2025		1,227
2026		1,227
2027		1,227
Thereafter		<u>40,565</u>
Total lease payments to be received		46,700
Less unearned interest income		<u>(24,045)</u>
Net investment in lease	\$	<u><u>22,655</u></u>

(18) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following specified purposes at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Healthcare services	\$ 51,816	57,511
Endowment funds, perpetual trusts and related receivables	78,231	76,079
Purchase of property, plant and equipment	42,001	39,721
Indigent care	2,459	2,167
Health education	<u>1,006</u>	<u>1,264</u>
Total net assets with donor restrictions	\$ <u><u>175,513</u></u>	<u><u>176,742</u></u>

(19) Endowment Funds

MHS' endowments consist of over 100 individual funds established for a variety of purposes. They include both endowment funds with donor restrictions and funds designated without donor restrictions by the board of directors of its foundations to function as endowments (board-designated endowments). Net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions and nature of restrictions, if any.

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The following tables present MHS' endowment net asset composition as well as associated changes therein:

	Board designated without donor restrictions	Funds with donor restrictions	Total
Endowment net assets, December 31, 2020	\$ 2,825	42,424	45,249
Investment return:			
Investment income	18	527	545
Net appreciation – realized and unrealized	65	1,289	1,354
Total investment return	83	1,816	1,899
Contributions	—	2,271	2,271
Appropriation of endowment assets for expenditure	(47)	(2,499)	(2,546)
Endowment net assets, December 31, 2021	2,861	44,012	46,873
Investment return:			
Investment income	16	376	392
Net depreciation – realized and unrealized	(85)	(987)	(1,072)
Total investment return	(69)	(611)	(680)
Contributions	—	3,499	3,499
Appropriation of endowment assets for expenditure	(28)	(581)	(609)
Endowment net assets, December 31, 2022	\$ 2,764	46,319	49,083

Perpetual trusts that are held and managed by third party trustees are recorded as net assets with donor restrictions on the consolidated balance sheets; however, they are not included as endowment net assets with donor restrictions in the above presentation. Those perpetual trusts totaled \$27,650 and \$31,008, respectively, as of December 31, 2022 and 2021. Also excluded from the presentation of endowment net assets with donor restrictions above are pledge receivables and other totaling \$4,262 and \$1,059, respectively, as of December 31, 2022 and 2021.

(a) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level of the original gifts and the amounts of subsequent donations accumulated at the funds. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in net assets with donor restrictions. There were no funds with deficiencies in 2022 or 2021.

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(b) Investment Policy – Including Return Objectives and Strategies to Achieve Objectives

The endowment assets are invested in an investment portfolio, which include those assets of donor restricted funds that MHS must hold in perpetuity as well as all other foundation-related investment assets. MHS has adopted an investment policy for the foundation investments that intends to provide income to support the spending policy while seeking to maintain the purchasing power of the endowment assets. To satisfy its long-term rate of return objectives, MHS relies on a total return strategy in which investment returns are achieved through both capital appreciation and interest and dividend income. MHS uses a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. There are some donor restricted funds that are held separately from MHS' pooled investments. These endowments are invested by donors in manners to provide funding for specific purposes as determined by donors.

(c) Spending Policy

In order to provide a stable and consistent level of funding for programs and services supported by the endowments, the foundations have determined that an annual spending rate of 5% of the endowment's average account value is prudent. In establishing the spending policies, the MHS foundations considered among other things, the expected total return on its endowments, effect of inflation, duration of the endowments to achieve its objective of maintaining the purchasing power of the endowment assets held in perpetuity, as well as to provide additional growth through new gifts and investment returns.

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

(20) Functional Expenses

MHS provides inpatient and outpatient services, physician services, home health services, and fundraising activities. Certain categories of expenses are attributable to programs and support services. These included salaries and wages, depreciation and amortization and other expenses. Costs are allocated based on cost allocation methods depending on the allocable expense, including square footage, time utilization and percentage of gross charges. Expenses related to providing these services are as follows for the years ended December 31, 2022 and 2021:

2022					
	Program services			Support services	Total
	Hospitals and related services	Clinics and urgent care centers	Retail and other services	Corporate and support services	
Salaries and wages	\$ 1,357,838	464,219	93,787	283,421	2,199,265
Employee benefits	133,164	75,536	20,705	68,208	297,613
Supplies	535,376	48,220	70,994	3,880	658,470
Purchased services	135,500	68,800	32,771	159,676	396,747
Depreciation and amortization	87,289	14,878	7,580	31,145	140,892
Interest	40,631	3,715	70	12,426	56,842
Other	281,895	48,356	121,797	89,198	541,246
	<u>\$ 2,571,693</u>	<u>723,724</u>	<u>347,704</u>	<u>647,954</u>	<u>4,291,075</u>
2021					
	Program services			Support services	Total
	Hospitals and related services	Clinics and urgent care centers	Retail and other services	Corporate and support services	
Salaries and wages	\$ 1,130,560	432,037	65,231	242,817	1,870,645
Employee benefits	128,295	72,692	15,595	61,603	278,185
Supplies	482,058	43,267	66,679	8,753	600,757
Purchased services	132,808	44,695	25,750	145,906	349,159
Depreciation and amortization	70,583	18,057	3,626	34,041	126,307
Interest	40,788	3,936	—	2,946	47,670
Other	293,968	57,179	20,779	114,079	486,005
	<u>\$ 2,279,060</u>	<u>671,863</u>	<u>197,660</u>	<u>610,145</u>	<u>3,758,728</u>

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

(21) Litigation and Regulatory Environment

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in the imposition of significant fines and penalties, significant repayments for patient services previously billed, and/or expulsion from government healthcare programs. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

MHS is also involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect to MHS' financial position.

(22) Subsequent Events

On January 17, 2023, Yakima Valley Memorial Hospital (Yakima) in Yakima, Washington affiliated with MHS. Yakima is a 238 bed hospital as well as operates primary and specialty care clinics in the Yakima Valley region. No consideration was exchanged and MHS became the sole corporate member of Yakima. The unaudited results of operations for the year ended December 31, 2022 is total operating revenue of \$521,288 and total deficit of revenue over expenses from operations of \$33,211. These unaudited results are not included within the results of operations of MHS for the year ended December 31, 2022 nor are these results indicative of future financial results. MHS is still completing the accounting for the affiliation pending the determination of the fair value of the inherent contribution made.

MHS has evaluated the subsequent events through March 21, 2023, the date at which the consolidated financial statements were issued and has included all necessary adjustments and disclosures.

Consolidated Cash Flow Statements (in thousands)

	Three Months Ended March 31, (Unaudited) <u>2025</u>	Year Ended December 31, (Audited*) <u>2024</u>
CASH FLOW S FROM OPERATING ACTIVITIES		
Change in net assets	\$ (49,152)	\$ 164,825
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	42,024	164,709
Amortization of bond premiums, discounts, and issuance costs	1,003	(2,270)
Realized and change in unrealized gains on investments, net	(14,402)	(152,961)
Gain on disposal of assets, net	(20)	3,992
Loss on joint ventures, net	4,421	2,480
Restricted contributions for long-term purposes	(7,610)	(28,126)
Changes in operating assets and liabilities:		
Accounts receivable	(46,832)	(51,585)
Supplies inventory and other current assets	(21,800)	11,147
Right-of-use lease asset	9,235	(27,140)
Other assets, net	21,802	(37,839)
Accounts payable and accrued expenses and interest payable	(40,075)	(110,497)
Accrued compensation and related liabilities	(24,165)	46,526
Right-of-use lease liability	(12,234)	37,470
Other liabilities, net	(3,776)	258,253
Net cash provided by operating activities	(141,581)	278,984
CASH FLOW S FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(93,000)	(304,333)
Proceeds from disposal of assets	20	1,795
Purchase of additional ownership in PSW and OSS	-	-
Contributions to joint ventures, net	(2,026)	(37,653)
Purchase of investments	(1,401,306)	(6,450,906)
Sales of investments	1,392,748	6,583,012
Change in donor trusts	186	16,411
Net cash provided by (used in) investing activities	(103,378)	(191,674)
CASH FLOW S FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(12,139)	(149,224)
Proceeds from debt issuance	-	149,376
Proceeds from line of credit, net	-	65
Principal payments on finance lease obligations	1,842	(7,499)
Restricted contributions for long-term purposes	7,610	28,126
Net cash provided by (used in) financing activities	(2,687)	20,844
Net change in cash and cash equivalents	(247,646)	108,154
CASH AND CASH EQUIVALENTS, beginning of year	620,230	512,076
CASH AND CASH EQUIVALENTS, end of period	\$ 372,584	\$ 620,230

*The consolidated statement of cash flows from the 2024 audit included Overlake, which is not shown here.

SUMMARY OF REVENUE SOURCES

The following table shows the combined gross patient service charge percentages for MHS by payor (excluding Overlake):

Source	Three Months Ended March 31,		Year Ended December 31,	
	2025	2024	2024	2023
Medicare	40.2 %	39.3 %	40.3 %	39.7 %
Medicaid	24.4	24.6	24.2	24.6
Commercial and Other	33.1	33.9	33.0	33.6
Personal Pay	2.3	2.2	2.5	2.1
Total	100.0 %	100.0 %	100.0 %	100.0 %

SUMMARY OF OPERATING DATA

The following table presents selected statistical indicators of MHS's patient activity (excluding Overlake).

	Three Months Ended March 31,		Year Ended December 31,	
	2025	2024	2024	2023
Statistical Summary				
Admissions ¹⁾	25,230	25,100	98,485	95,164
Adjusted Admissions	68,825	70,066	280,378	257,665
Patient Days ¹⁾	134,567	131,302	516,423	513,583
Average Length of Stay (Days)	5.33	5.23	5.24	5.40
Average Daily Census	1,495	1,443	1,411	1,407
Percent Occupancy (of beds in service)	75.1%	76.5%	71.1%	74.1%
Emergency Room Visits	187,437	166,298	699,440	644,329
Provider Visits (primary, specialty, & urgent care)	856,186	793,811	3,724,306	3,110,733
Overall Case Mix Index	1.58	1.65	1.65	1.65
Surgical Cases	19,342	19,655	80,952	73,823

1) Admissions and patient days include acute care, psychiatric and rehabilitation volumes and exclude newborns.