



MULTICARE HEALTH SYSTEM

Consolidated Financial Statements

December 31, 2023 and 2022

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

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)

	2023	2022
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	4,949,015	4,003,699
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	5,137,486	4,291,075
Deficit of revenues over expenses from operations	(188,471)	(287,376)
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	599,670	(227,660)
Excess (deficit) of revenues over expenses	\$ 411,199	(515,036)

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)

	<u>Without donor restrictions</u>		<u>With donor restrictions</u>	<u>Total net assets</u>
	<u>Controlling interests</u>	<u>Noncontrolling interests</u>		
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	<u>(499,463)</u>	<u>34,471</u>	<u>(1,229)</u>	<u>(466,221)</u>
Balance, December 31, 2022	<u>2,930,546</u>	<u>34,471</u>	<u>175,513</u>	<u>3,140,530</u>
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>

See accompanying notes to consolidated financial statements.

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

	<u>2023</u>	<u>2022</u>
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	<u>542,067</u>	<u>308,732</u>
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.

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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(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, 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

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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

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>

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December 31, 2023 and 2022

(Dollars in thousands)

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

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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

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.

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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

(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.

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(Dollars in thousands)

(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.

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December 31, 2023 and 2022

(Dollars in thousands)

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.

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(Dollars in thousands)

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.

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(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.

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(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.

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(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

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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.

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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 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.

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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 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.

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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, 2023 and 2022 are as follows:

	2023	2022
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
	\$ 4,521,328	3,765,888

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:

	2023	2022
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
	100 %	100 %

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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, 2023 and 2022:

Fair value measurements at reporting date using				
	December 31, 2023	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
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	—

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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:				
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	—
	<u>1,662,324</u>	<u>\$ 1,378,965</u>	<u>253,928</u>	<u>29,431</u>
Investment assets valued at NAV	<u>403,251</u>			
Total assets at fair value or NAV	<u>\$ 2,065,575</u>			
Liabilities:				
Interest rate swaps	\$ 9,470	—	9,470	—

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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:

	<u>NAV</u> <u>December 31,</u> <u>2023</u>	<u>NAV</u> <u>December 31,</u> <u>2022</u>	<u>Unfunded</u> <u>commitments</u>	<u>Redemption</u> <u>frequency</u>	<u>Redemption</u> <u>notice period</u>
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	<u>6,754</u>	<u>8,556</u>	<u>1,800</u>	N/A	N/A
Total investments valued at NAV	<u>\$ 289,026</u>	<u>403,251</u>	<u>1,860</u>		

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.

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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

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	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	<u>\$ 151,563</u>	<u>1,996,970</u>	<u>2,148,533</u>

	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	<u>\$ 119,526</u>	<u>1,968,205</u>	<u>2,087,731</u>

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

	<u>2023</u>	<u>2022</u>
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:

	<u>2023</u>	<u>2022</u>
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>

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

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	\$ 401,519	329,808

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	\$ 247,573	231,045

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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

(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:

	2023	2022
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	(32,492)	(85,170)
Projected benefit obligations at end of year	\$ 455,931	454,337
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	(32,492)	(85,170)
Fair value of plan assets at end of year	\$ 505,167	490,765
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

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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

	<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.

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

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	—

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December 31, 2023 and 2022

(Dollars in thousands)

Fair value measurements at reporting date using					
		December 31, 2023	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
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					
		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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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

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	<u>(85,854)</u>			
Total assets at fair value	422,580			
Investments valued at NAV	<u>68,185</u>			
Total assets at fair value or NAV	<u>\$ 490,765</u>			

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	<u>3,577</u>	<u>4,402</u>	<u>850</u>	N/A	N/A
Total investments valued at NAV	<u>\$ 73,954</u>	<u>68,185</u>	<u>850</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.

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December 31, 2023 and 2022

(Dollars in thousands)

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:

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

(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:

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

(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.

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(Dollars in thousands)

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.

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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

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><u>111,744</u></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><u>113,328</u></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><u>(292)</u></u>

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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

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			
	December 31, 2023	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	\$ 16,006	16,006	—	—
Trading securities:				
Equity securities	97,322	97,322	—	—
Total assets at fair value	\$ 113,328	113,328	—	—

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Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

(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.

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Notes to Consolidated Financial Statements

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(Dollars in thousands)

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 net 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:

	<u>2023</u>	<u>2022</u>
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

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

	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
	1,941,717	1,943,869
Adjusted for:		
Current portion	(22,411)	(18,496)
Bond premiums, discounts, and debt issuance costs	42,643	46,764
Long-term debt, net of current portion	\$ 1,961,949	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.

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

(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.

MULTICARE HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

(Dollars in thousands)

(l) 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		1,817,636
	\$	1,941,717

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

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

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(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	819	802
Total finance lease cost	<u>6,741</u>	<u>5,547</u>
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

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	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	\$ 245,957	18,947	264,904

(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.

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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>

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Notes to Consolidated Financial Statements

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(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
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, December 31, 2021	\$ 2,861	44,012	46,873
Investment return:			
Investment income	16	376	392
Net depreciation – realized and unrealized	<u>(85)</u>	<u>(987)</u>	<u>(1,072)</u>
Total investment return	(69)	(611)	(680)
Contributions	—	3,499	3,499
Appropriation of endowment assets for expenditure	<u>(28)</u>	<u>(581)</u>	<u>(609)</u>
Endowment net assets, December 31, 2022	<u>2,764</u>	<u>46,319</u>	<u>49,083</u>
Investment return:			
Investment income	72	933	1,005
Net depreciation – realized and unrealized	<u>334</u>	<u>5,850</u>	<u>6,184</u>
Total investment return	406	6,783	7,189
Contributions	—	18,188	18,188
Appropriation of endowment assets for expenditure	<u>(1,198)</u>	<u>(29,455)</u>	<u>(30,653)</u>
Endowment net assets, December 31, 2023	\$ <u>1,972</u>	<u>41,835</u>	<u>43,807</u>

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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.

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(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>

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(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.