Corewell Health™

Corewell Health and Subsidiaries

Consolidated Financial Statements

As of and for the Year Ended December 31, 2023

Corewell Health and Subsidiaries

December 31, 2023

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CHIEF FINANCIAL OFFICER'S REPORT

As of and for the Year Ended December 31, 2023

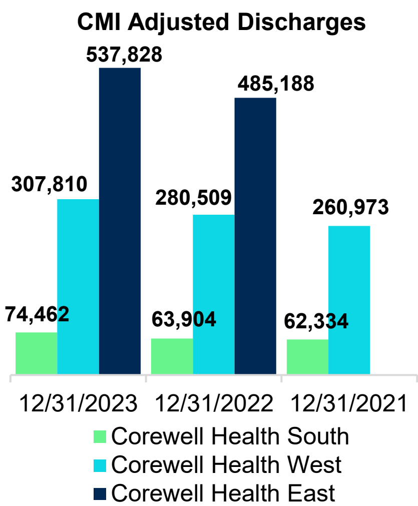
The enclosed package represents the consolidated financial statements for Corewell Health and Subsidiaries (the System). Corewell Health is a not-for-profit health system providing health care and services in 21 hospitals, 300+ outpatient locations and several post-acute facilities and coverage through Priority Health, a provider-sponsored health plan serving more than 1.3 million members. The accompanying financial statements summarize the System's care delivery, coverage and other operations.

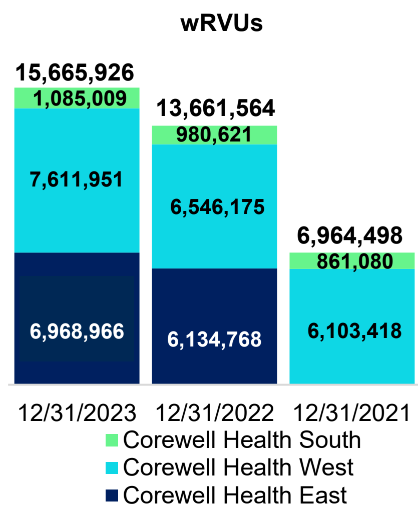
Corewell Health East (formerly Beaumont Health) became a wholly owned subsidiary of the System effective February 1, 2022. As required by accounting principles, the combination was accounted for as an acquisition. Due to that treatment, operating performance for Corewell Health East is only included since that date, impacting the comparability between periods.

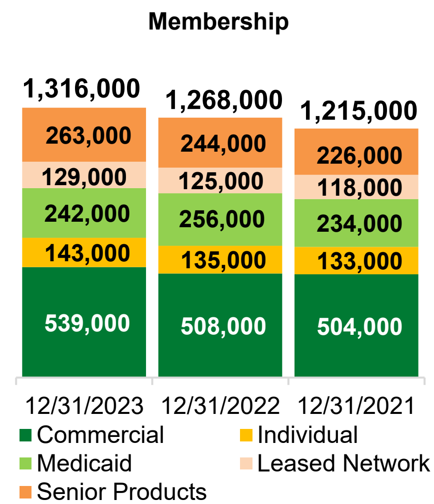
VOLUME

CARE DELIVERY, on a year-to-date basis, experienced increased hospital and surgery volumes in most locations when compared to prior year. Volumes continue to shift from inpatient to outpatient across the System. Physician Services wRVUs grew 15.5% from prior year on a same-site basis, most of which is due to the change in the CMS wRVU fee schedule, which increased common wRVUs by 20%-30%.

COVERAGE membership increased 3.8% from prior year with growth across most products.







OPERATING MARGIN

The System's operating margin was $190.7 million, or 1.3% of net operating revenue, which was ahead of prior year of 1.1%. This includes recognition of Federal and State Funding of $18.5 million in the current year and $106.1 million in the prior year. Excluding the funding, the operating margin was $172.3 million, or 1.1%, which was ahead of prior year of 0.4%.

CARE DELIVERY'S operating margin was $88.1 million, or 0.9%, which was behind prior year of 2.1%. This includes recognition of Federal and State funding as mentioned above. Excluding the funding, operating margin of 0.7% was behind prior year of 1.0%. Volumes have increased over the prior year, however, Care Delivery continues to experience lower reimbursement across the state due primarily to changes in payor mix and shifts from inpatient to outpatient services, along with an increased spend in agency and critical staffing.

COVERAGE'S operating margin was $17.9 million, or 0.3%, which was behind prior year of 0.9%. This is driven by continuing unfavorable medical yields, along with an unfavorable adjustment in 2023 for the 2022 Affordable Care Act Risk Adjustment settlement on the individual and small group populations.

CHIEF FINANCIAL OFFICER'S REPORT

As of and for the Year Ended December 31, 2023

TOTAL MARGIN

The System's excess of revenue over expenses was $992.8 million or 6.2% of total revenue. Net other revenue of $811.0 million was comprised primarily of $822.1 million of net investment activity (interest, dividends, realized and unrealized gains/losses) and net swap gains of $2.4 million, offset by other non-operating expenses. The $811.0 million net other revenue was $1.6 billion higher than December 31, 2022, as a result of positive returns in the current investment market. The investment returns of $822.1 million effectively recouped the $815.7 million of losses experienced in the markets in 2022.

LIQUIDITY AND CASH FLOW

At December 31, 2023, total cash and investments for the System were $8.1 billion, an increase of $346.6 million from December 31, 2022. The increase to cash was driven by non-operating gains of $803.3, an increase in operating cash flow margin of $783.7 million, and other net asset contributions of $64.4 million. These were offset by spend on property and equipment of $756.8 million, a decrease in working capital of $472.6 million, and net changes on long term obligations of $75.4 million.

RATIOS

Days cash on hand for the System decreased 4.7 days to 205.1 at December 31, 2023, from 209.8 days at December 31, 2022. While cash and investments have increased over prior year, average daily expense has increased at a greater rate. Priority Health's risk-based capital (RBC) was 546%. EBITDA margin was 5.2%.

EQUITY STRUCTURE

Debt was approximately $2.3 billion at December 31, 2023, and fund balance was approximately $10.0 billion. The debt to capitalization ratio for the System was 19.8%, which was lower than the Moody's 2022 Aa3 median of 26.0%. Total assets for the System were approximately $15.9 billion.

Respectfully submitted,

Matthew E. Cox

Matthew E. Cox
Chief Financial Officer

Ratio Analysis - Total System
December 31, 2023

	Actual 2023	Actual 2022	Medians S&P	Medians Moody's	
Profitability Ratios					
Operating margin before Federal and State Funding	1.1%	0.4%	3.4%	2.5%	
Operating margin after Federal and State Funding	1.3%	1.1%	3.4%	2.5%	
Total margin	6.2%	(4.6)%	6.5%	5.9%	
EBITDA Margin	5.2%	5.2%	n/a	7.7%	
Return on assets	6.2%	(4.0)%	n/a	4.4%	
Liquidity Indicators					
Days in patient receivables (adjusted)^	46.6	46.7	48.9	47.6	
Days cash (unrestricted) on hand	205.1	209.8	327.9	277.3	
Current ratio	1.5	1.7	n/a	1.7	
Cash to debt %	345.5%	321.1%	n/a	252.4%	
Capital Structure					
Total debt to capitalization	19.8%	22.1%	21.6%	26.0%	
Risk based capital (PH only)	546%	545%	n/a	501%	(a)
Capital expenditures to depreciation	1.6	1.2	1.5	1.3	

^ Days in patient receivables adjusted to include Priority Health and remove the impact of interim and supplemental payments.

(a) Provider Sponsored Health Plan benchmark consists of seven similar sized health plans. RBC benchmark data is based on December 31, 2022 statutory filings.

Note: Moody's figures are medians for freestanding hospitals, single-state & multi-state healthcare systems with Aa3 bond ratings as of the 2022 report.
The figures represent a 5-year rolling average. Corewell Health's current rating from Moody's is Aa3.
S&P figures are medians for not-for-profit healthcare systems with AA bond ratings as of the 2022 report.
The figures represent a 5-year rolling average. Corewell Health's current rating from S&P is AA.

Corewell Health
Liquidity Worksheet*
December 31, 2023
(in thousands)

	Assets			
	Assets With Same-Day Liquidity	**Assets With Next-Day Liquidity**	**Assets > Next-Day Liquidity**	**Total**
Cash & Cash Equivalents	$ 17,005	$ -	$ -	$ 17,005
S&P Rated Money Market Funds (> Am)	1,171,393	8,021	-	1,179,415
U.S. Treasury Debt Obligations (> 1 year)	-	237,276	-	237,276
U.S. Agencies (> 1 year)	-	-	249,498	249,498
Investment Grade Debt (not included above)	-	150,826	368,614	519,440
Equities	-	521,057	319,012	840,069
Non-Investment Grade Debt	-	-	0	0
Total	$ 1,188,398	$ 917,180	$ 937,125	$ 3,042,703

	Self-Liquidity Backed Debt			
	Same-Day Notice	**Next-Day Notice**	**> Next-Day Notice**	**Total**
Series 2015A Variable Rate Demand Obligation (Windows)	$ -	$ -	$ 78,400	$ 78,400
Taxable Commercial Paper (authorized maximum $300,000)	74,000	-	-	74,000
Total	$ 74,000	$ -	$ 78,400	$ 152,400

*The table represents assets that would be reasonably available to Corewell Health to satisfy a liquidity event. The table does not include assets held by subsidiaries that would not be reasonably available to satisfy a liquidity event, including assets held by Foundations and Priority Health, among others. Sources of liquidity comply with S&P self-liquidity requirements.

Consolidated Financial Statements and Supplemental Information

Corewell Health and Subsidiaries
Years Ended December 31, 2023 and 2022
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Corewell Health and Subsidiaries

Consolidated Financial Statements and
Supplemental Information

Years Ended December 31, 2023 and 2022

Contents

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Report of Independent Auditors

The Board of Directors
Corewell Health and Subsidiaries

Opinion

We have audited the consolidated financial statements of Corewell Health and Subsidiaries (collectively, the System), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the System at December 31, 2023 and 2022, and the results of its operations and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 financial statements.

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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 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 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 System'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the incurred and paid claims development prior to the most recent year and the average annual percentage payout of incurred claims disclosed in Note 5 to the consolidated financial statements be presented to supplement the financial statements. Such information is the responsibility of management, and although not part of the consolidated financial statements, is required by the Financial Accounting Standards Board (FASB), which considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Supplemental Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information listed in the table of contents on pages 64–67 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Information

Management is responsible for the other information. The other information comprises the Chief Financial Officer Report and the Other Financial Information but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Ernst + Young LLP

February 28, 2024

A member firm of Ernst & Young Global Limited

Corewell Health and Subsidiaries

Consolidated Balance Sheets

(In Thousands)

	December 31 2023	December 31 2022
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,546,701**	$ 1,915,422
Short-term investments	**430,792**	402,085
Accounts receivable:		
Patients	**977,406**	873,966
Other	**436,136**	379,736
Estimated third-party payor settlements	**394,498**	288,811
Pledges receivable	**30,750**	29,688
Inventories	**165,253**	197,356
Prepaid expenses and other current assets	**175,723**	156,181
Total current assets	**4,157,259**	4,243,245
Investments	**6,688,499**	5,894,239
Property and equipment – net	**4,184,249**	3,882,344
Right-of-use assets – net	**214,547**	223,686
Other assets:		
Investments in joint ventures	**66,212**	72,017
Goodwill	**40,424**	47,497
Pledges receivable, less current portion	**34,083**	42,679
Other	**524,764**	452,858
	665,483	615,051
Total assets	**$ 15,910,037**	$ 14,858,565

Continued on next page.

Corewell Health and Subsidiaries

Consolidated Balance Sheets (continued)
(In Thousands)

	December 31	
	2023	**2022**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 1,046,529**	$ 985,957
Salaries, wages, and related withholdings	**683,514**	647,696
Health plan claims payable	**534,260**	515,321
Estimated third-party payor settlements	**150,394**	174,602
Current maturities of long-term debt	**165,771**	80,504
Short-term debt	**151,670**	78,400
Current portion of lease obligations	**39,473**	46,896
Total current liabilities	**2,771,611**	2,529,376
Long-term debt, less current maturities	**1,962,835**	2,196,415
Lease obligations, less current portion	**205,140**	205,914
Professional liability accrual	**296,108**	316,118
Accrued pension obligation	**225,155**	215,193
Interest rate swaps	**36,375**	44,086
Other long-term liabilities	**423,919**	340,788
Total liabilities	**5,921,143**	5,847,890
Net assets:		
Controlling interest in net assets without donor restrictions	**9,511,168**	8,555,787
Noncontrolling interest in subsidiaries	**85,125**	76,835
Net assets without donor restrictions	**9,596,293**	8,632,622
Net assets with donor restrictions	**392,601**	378,053
Total net assets	**9,988,894**	9,010,675
Total liabilities and net assets	**$ 15,910,037**	$ 14,858,565

See accompanying notes.

Corewell Health and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Year Ended December 31	
	2023	**2022**
Operating revenue		
Net patient service revenue	**$ 8,270,917**	$ 7,500,809
Premium revenue	**6,481,344**	5,885,395
Other	**398,949**	418,915
Total operating revenue	**15,151,210**	13,805,119
Operating expenses		
Salaries, wages, and employee benefits	**5,574,005**	5,400,897
Supplies and other	**3,864,645**	3,363,887
Health care claims expense	**4,928,867**	4,323,534
Depreciation and amortization	**496,107**	480,936
Interest	**96,864**	78,069
Total operating expenses	**14,960,488**	13,647,323
Net operating income	**190,722**	157,796
Other nonoperating revenue (expenses)		
Investment returns, net	**822,076**	(815,696)
Gain on interest rate swaps, net	**2,412**	70,030
Other expenses, net	**(13,459)**	(10,595)
Contribution received in connection with acquisition	**–**	3,093,138
Total other nonoperating revenue, net	**811,029**	2,336,877
Excess of revenue over expenses	**1,001,751**	2,494,673
(Income) loss attributable to noncontrolling interest	**(8,979)**	3,386
Excess of revenue over expenses	**$ 992,772**	$ 2,498,059

Continued on next page.

Corewell Health and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)

(In Thousands)

	Year Ended December 31 2023			Year Ended December 31 2022		
	Total	**Controlling**	**Noncontrolling**	**Total**	**Controlling**	**Noncontrolling**
Net assets without donor restrictions						
Excess of revenue over (under) expenses	**$ 1,001,751**	**$ 992,772**	**$ 8,979**	$ 2,494,673	$ 2,498,059	$ (3,386)
Contributions	**394**	**394**	**–**	1,718	1,718	–
Expenditures for donor sponsored programs	**(2,415)**	**(2,415)**	**–**	(2,561)	(2,561)	–
Net assets released for capital acquisitions	**22,271**	**22,271**	**–**	18,459	18,459	–
Pension-related changes other than net periodic pension cost	**(55,714)**	**(55,714)**	**–**	(68,960)	(68,960)	–
Other	**(2,616)**	**(1,927)**	**(689)**	(4,839)	(5,121)	282
Increase (decrease) in net assets without donor restrictions	**963,671**	**955,381**	**8,290**	2,438,490	2,441,594	(3,104)
Net assets with donor restrictions						
Contributions	**65,878**	**65,878**	**–**	52,131	52,131	–
Contribution received in connection with acquisition	**–**	**–**	**–**	174,967	174,967	–
Expenditures for donor sponsored programs	**(57,382)**	**(57,382)**	**–**	(47,775)	(47,775)	–
Investment returns	**27,165**	**27,165**	**–**	(29,650)	(29,650)	–
Net assets released for capital acquisitions	**(22,271)**	**(22,271)**	**–**	(18,459)	(18,459)	–
Other	**1,158**	**1,158**	**–**	3,086	3,086	–
Increase in net assets with donor restrictions	**14,548**	**14,548**	**–**	134,300	134,300	–
Increase (decrease) in net assets	**978,219**	**969,929**	**8,290**	2,572,790	2,575,894	(3,104)
Net assets, beginning of year	**9,010,675**	**8,933,840**	**76,835**	6,437,885	6,357,946	79,939
Net assets, end of year	**$ 9,988,894**	**$ 9,903,769**	**$ 85,125**	$ 9,010,675	$ 8,933,840	$ 76,835

See accompanying notes.

Corewell Health and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended December 31	
	2023	**2022**
Operating activities and other revenue		
Increase in net assets	**$ 978,219**	$ 2,572,790
Adjustments to reconcile increase in net assets to net cash provided by operating activities and other revenue:		
Donor restricted contributions and other net asset activity	**(64,420)**	(50,378)
Contribution received in connection with acquisition	**–**	(3,268,105)
Unrealized gain in market value of interest rate swaps	**(7,711)**	(79,444)
Pension-related changes other than net periodic pension cost	**55,714**	68,960
Depreciation and amortization	**496,107**	480,936
Gain on debt extinguishment	**–**	(5,128)
Changes in operating assets and liabilities:		
Trading securities	**(827,615)**	845,904
Changes in patients accounts receivable, other accounts receivable inventories, prepaid expenses, third-party settlement receivables, and other operating assets	**(273,879)**	44,146
Changes in accounts payable and accrued expenses, accrued salaries, wages, and related withholdings, health plan claims payable, third-party settlement liabilities, and other operating liabilities	**32,075**	(342,962)
Other	**38**	8,044
Net cash provided by operating activities	**388,528**	274,763
Investing activities		
Additions to property and equipment, net	**(756,771)**	(579,948)
Net cash acquired in acquisition	**–**	1,190,065
Other	**4,190**	340
Net cash (used in) provided by investing activities	**(752,581)**	610,457
Financing activities		
Donor restricted contributions and other net asset activity	**64,420**	50,378
Proceeds from issuance of long-term debt	**146,698**	1,041,014
Payments on long-term debt	**(215,331)**	(1,121,846)
Payments on debt extinguishment	**–**	(6,324)
Payments on cost of debt issuance	**–**	(5,325)
Payments on financing lease obligations	**(6,718)**	(6,852)
Net cash used in financing activities	**(10,931)**	(48,955)
(Decrease) increase in cash, cash equivalents, and restricted cash	**(374,984)**	836,265
Cash, cash equivalents, and restricted cash at beginning of year	**1,930,223**	1,093,958
Cash, cash equivalents, and restricted cash at end of year	**$ 1,555,239**	$ 1,930,223
Noncash activities		
Right-of-use assets obtained in exchange for lease liabilities, net	**$ 43,133**	$ 58,932

See accompanying notes.

1. Significant Accounting Policies

The Reporting Entity and Principles of Consolidation

Corewell Health is a nonprofit Michigan corporation formed as a holding company to direct the activities of an integrated health care delivery system. The consolidated financial statements include the accounts of Corewell Health and its wholly owned or controlled subsidiaries (collectively, the System). The controlled subsidiaries include acute care campuses located across Michigan; Priority Health, a managed care health plan; and various other subsidiaries providing inpatient and outpatient acute care, long-term care, home health care, physician, and other services in their respective markets in Michigan. Additionally, the System currently has two wholly owned captive insurance companies. The companies, one offshore and one onshore, provide medical professional and generally liability coverage to the System, its subsidiaries, and voluntary medical staff.

Basis of Consolidated Financial Statements

The consolidated financial statements include the accounts of all wholly owned, majority-owned, and controlled organizations. For investments where the System owns less than a 20% ownership interest and does not exercise significant influence, the equity or the cost method of accounting is used. For investments whereby the System holds up to a 50% ownership interest and does exercise significant influence, the equity method of accounting is the only accounting method used. The System has eliminated all intercompany transactions and account balances in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (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. Although actual results could differ from these estimates, management believes estimated amounts recorded are reasonable and appropriate.

(In Thousands)

1. Significant Accounting Policies (continued)

Mission Statement and Other Nonoperating Revenue and Expenses

The System's mission is to improve health, instill humanity, and inspire hope. Only those activities directly related to this mission are considered operating activities. Other activities that result in revenue or expenses unrelated to the primary mission are considered to be other nonoperating revenue and expenses.

Cash, Cash Equivalents, and Restricted Cash

Cash and cash equivalents include short-term, highly liquid investments with a maturity of three months or less when purchased. Highly liquid debt instruments with original, short-term maturities of less than 90 days that are included as part of the investment portfolio are excluded from cash equivalents, as they are commingled with longer-term investments.

Amounts included in restricted cash represent those required to be set aside by a contractual agreement or for donor restricted purposes. Restricted cash is classified within investments on the consolidated balance sheets.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown on the consolidated statements of cash flows:

	December 31	
	2023	**2022**
Cash and cash equivalents	**$ 1,546,701**	$ 1,915,422
Restricted cash included in investments	**8,538**	14,801
	$ 1,555,239	$ 1,930,223

Restricted cash included in investments represents the cash portion of the investments in Note 10 that are restricted by bond indenture, by state insurance commissioner, and by other state regulations.

1. Significant Accounting Policies (continued)

Short-Term Investments

Short-term investments primarily consist of debt securities and are internally designated as current assets, because such amounts are available to meet the System's operating cash requirements.

Inventories

Inventories consist primarily of medical supplies and pharmaceuticals and are stated at the lower of cost or market, with cost being determined primarily on an average cost basis.

Investments and Investment Income

Investments include assets held by trustees under indenture, statutory requirements, and self-insurance agreements; health plan and foundation assets; and designated assets set aside by the Board of Directors (the Board) over which it retains control and may, at its discretion, subsequently use for other purposes. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on observable quoted prices. Mutual funds are recorded at fair value based on observable quoted prices.

Investments also include investments in commingled funds, hedge funds, private capital and real estate. Commingled funds that hold securities directly are stated at the fair value of the underlying securities, as determined by the administrator, based on readily determinable market values. Certain alternative investments, mainly hedge funds through limited partnerships, private capital and real estate vehicles, are accounted for using the equity method based on their net asset value per share (NAV).

All investments are considered to be trading securities. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses, unless the income or loss is restricted by donor or law. Gains and losses with respect to disposition of marketable securities are based on the specific-identification method. Investment income related to net assets with donor restrictions is added to or deducted from the appropriate net asset balance based on donor intent.

1. Significant Accounting Policies (continued)

Investment securities purchased and sold are reported based on the trade date. Due to the period lag between the trade date and the settlement date, the System reports receivables for securities sold but not settled and reports liabilities for securities purchased but not settled. These receivables and payables are settled from within the investment portfolio.

Property and Equipment

Property and equipment are stated on the basis of cost or approximate fair value at the date of acquisition or donation. Included in property and equipment are costs for software developed for internal use. Depreciation is provided on a straight-line basis over the estimated useful lives of the property (3 to 50 years). Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the length of the lease. Interest cost incurred in connection with borrowings to finance major construction or facility expansion is capitalized during the construction period and subsequently amortized over the lives of the related assets.

Right-of-Use Assets

Right of use assets under financing and operating lease obligations are amortized on a straight-line basis in accordance with lease accounting standards. Financing lease amortization is included within depreciation and amortization, and operating lease amortization is included within supplies and other expense on the accompanying consolidated statements of operations and changes in net assets.

Asset Impairment

The System considers whether indicators of impairment are present and performs the necessary test to determine whether the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating income at the time the impairment is identified. No material asset impairments were recorded in 2023 or 2022.

(In Thousands)

1. Significant Accounting Policies (continued)

Goodwill

In connection with business combinations, the System has recorded goodwill on the accompanying consolidated balance sheets. Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets of acquired organizations. Goodwill is amortized using the straight-line method over ten years. The System evaluates goodwill for impairment at the entity level at the end of each reporting period, if an event or a circumstance indicates that the fair value of the entity may be less than its carrying amount. Impairment was not indicated during 2023 or 2022.

The following is a summary of the System's goodwill:

	December 31	
	2023	**2022**
Goodwill	**$ 70,734**	$ 70,734
Less accumulated amortization	**(30,310)**	(23,237)
	$ 40,424	$ 47,497

Total amortization expense was $7,073 and $7,074 in 2023 and 2022, respectively.

Derivative Financial Instruments

The System has entered into interest rate swap agreements with certain banks to manage risks associated with changes in interest rates. The System records its derivative instruments as either assets or liabilities on the accompanying consolidated balance sheets at fair value. None of the System's current derivatives are designated as a hedge. Accordingly, both unrealized and realized derivative gains and losses related to the interest rate swaps are included in gain on interest rate swaps, net on the consolidated statements of operations and changes in net assets.

1. Significant Accounting Policies (continued)

Other Long-Term Assets and Liabilities

Other long-term assets include deferred compensation investments, software hosting arrangements, capitalized implementation costs, long-term prepaid expenses, intangible rights, notes receivable, and excess liability insurance receivable. Other long-term liabilities include deferred compensation payable, commitments payable, and other reserves.

Net Assets

Net assets, revenue, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature to a specific time period or purpose. Other donor imposed restrictions are perpetual in nature and are maintained by the System in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Noncontrolling Interest in Subsidiaries

The System attributed gains of $8,979 and losses of $3,386 for the years ended December 31, 2023 and 2022, respectively, to noncontrolling interests based on the ownership percentage of the noncontrolling interests in certain of the System's consolidated subsidiaries. These amounts are recognized in net assets without donor restrictions on the consolidated balance sheets, net of distributions.

Performance Indicator

The System's performance indicator (excess of revenue over expenses) includes all changes in net assets without donor restrictions other than contributions without donor restrictions and related expenditures for donor sponsored programs, net assets released for capital acquisitions, and certain changes in pension and postretirement healthcare obligations.

1. Significant Accounting Policies (continued)

Net Operating Revenue

Net operating revenue is recognized in the period in which the System satisfies performance obligations under contracts by transferring goods or services to its customers. Net operating revenue is recognized in the amounts to which the System expects to be entitled, which are the transaction prices allocated to the distinct services. Net operating revenue for the System's health care delivery operations primarily consists of net patient service revenue, principally for patients covered by Medicare, Medicaid, commercial and managed care, and other health plans, as well as certain uninsured patients and other uninsured discount and charity programs. Net operating revenue for the System's health plan operations primarily consists of health insurance premium revenue for its members, who have obtained insurance coverage through commercial agreements, Medicare Advantage, Medigap, or Medicaid, and administrative services, which consist of self-funded health plans and other various ancillary administrative services.

Charity Care

In support of its mission, the System provides various health-related services, at a loss, to the indigent and other residents in its service area. Policies have been established that define charity care and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial circumstances are revealed or when incurred charges are significant when compared with the individual patient's income and/or net assets. Because the System does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported in net patient service revenue. In addition, the System provides services to other medically indigent patients under various Medicare and Medicaid programs, which pay providers amounts that are less than the costs incurred for the services provided to the recipients.

The estimated costs of charity care and discounted care are $29,292 and $36,363 for the years ended December 31, 2023 and 2022, respectively. Costs are estimated using the ratio of each facility's costs to its charges at a department level applied to gross charity charges. These ratios are then applied to all system costs to determine the value of charity care. Any reimbursements are then deducted from the cost to arrive at the estimated cost of charity care.

1. Significant Accounting Policies (continued)

Recently Adopted Accounting Standards

Effective January 1, 2023, the System adopted Financial Accounting Standards Board (the FASB) Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This guidance aligns the needs of the users of financial statements related to credit loss recognition and addresses the potential weakness from the delayed recognition of credit losses, resulting in overstatement of assets. The amendments replace the current incurred loss methodology, which delays recognition until it is probable a loss has occurred, with one that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The System records reserves based on expected concessions and losses at a conservative level; therefore, the guidance did not have any impact on the System's consolidated financial statements, other than additional disclosures as part of the notes to the consolidated financial statements.

Effective December 31, 2022, the System adopted FASB ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides optional expedients and exceptions for applying GAAP to affected contracts for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. As of December 31, 2023, all of the System's interest rate swap agreements and other debt instruments were transitioned away from LIBOR and are measured as noted in Notes 12 and 13.

Forthcoming Accounting Pronouncements

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842): Common Control Arrangements*. This guidance requires that entities determine whether a related party arrangement between entities under common controls is a lease, and if the determination confirms the arrangement is a lease, the entity must classify and account for the lease on the same basis as an arrangement with an unrelated party. The guidance also provides updates to the accounting for leasehold improvements under common control arrangements. The guidance is effective for the System beginning January 1, 2024. The System is still evaluating the impact this guidance will have on its consolidated financial statements and results of operations.

1. Significant Accounting Policies (continued)

In August 2023, the FASB issued ASU 2023-05, *Business Combinations – Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*. This guidance addresses the accounting for contributions made to a joint venture, upon formation, in a joint venture's separate financial statements, and requires that a joint venture apply a new basis of accounting upon formation. This will result in the initial recognition of assets and liabilities at fair value upon formation of a joint venture. The guidance is effective for the System beginning January 1, 2025, with early adoption permitted, and is prospective for joint venture formations. The System is still evaluating the impact this guidance will have on its consolidated financial statements and results of operations.

Reclassifications

The 2022 consolidated balance sheet and related patient accounts receivable table in Note 4 have been adjusted to correct $213,982 of amounts previously included in patients accounts receivable to be reflected as estimated third-party payor settlements, as the amounts are due from third parties. The 2022 liquidity and availability (Note 3) has been adjusted to include current estimated third-party payor settlements, as management believes that these amounts represent additional liquidity. The 2022 property and equipment (Note 8) classification of assets and the deferred compensation section of the employee benefit plans (Note 16) classification of plans has been adjusted to appropriately reflect the classification of amount based on the 2023 presentation. The effects of such misclassifications are considered immaterial and did not change total net assets or the excess of revenue over expenses.

Subsequent Events

The System evaluated subsequent events after December 31, 2023 through February 28, 2024, representing the date that the accompanying consolidated financial statements were available to be issued. The System concluded that no material events or transactions occurred subsequent to December 31, 2023, which provided additional evidence about conditions that existed at December 31, 2023, or after, requiring adjustment to or disclosure in the consolidated financial statements.

(In Thousands)

2. Business Combinations

On February 1, 2022, the System became the sole corporate member of Beaumont Health and Subsidiaries (Beaumont Health), an integrated health care system located in southeast Michigan, through a noncash business combination. The business combination was designed to enable both organizations to further their charitable missions and was recorded using the acquisition method of accounting. The fair value of property and equipment was determined based on an independent third-party valuation and are classified as Level 3 (as defined in Note 14). There was no goodwill or identifiable intangible assets recorded as a result of this transaction.

From the date of acquisition through December 31, 2022, Beaumont Health, now known as Corewell Health East, reported operating revenue of $4,380,324, a net operating loss of $29,621, and an excess of expenses over revenue of $272,344, which is included on the System's consolidated statements of operations and changes in net assets.

Below is a summary of the fair value of net assets acquired, liabilities assumed, and the impact on the consolidated statement of operations and changes in net assets for the year ended December 31, 2022.

Cash and cash equivalents	$ 1,189,610
Restricted cash	455
Other current assets	832,829
Property and equipment	1,688,019
Long-term investments	2,259,816
Other long-term assets	308,015
Total assets	6,278,744
Current liabilities	952,908
Long-term debt	1,405,565
Other long-term liabilities	652,166
Total liabilities	3,010,639
Excess of fair value of assets acquired over liabilities assumed at time of acquisition	$ 3,268,105
Nonoperating revenue, contribution received in connection with acquisition	$ 3,093,138
Contribution of net assets with donor restrictions	174,967
	$ 3,268,105

(In Thousands)

2. Business Combinations (continued)

Supplemental Pro Forma Information (Unaudited)

The System's revenue and changes in net assets without donor restrictions and net assets with donor restrictions for the year ended December 31, 2022, as if the acquisition had occurred at January 1, 2022, are as follows:

Revenue	$ 14,148,525
Decrease in net assets without donor restrictions	(801,916)
Decrease in net assets with donor restrictions	(45,071)

3. Liquidity and Availability

Financial assets available for general expenditure within one year of December 31 include the following:

	2023	2022
Cash and cash equivalents	**$ 1,546,701**	$ 1,915,422
Patient receivables	**977,406**	873,966
Other receivables	**436,136**	379,736
Estimated third-party payor settlements	**394,498**	288,811
Investments	**5,617,933**	5,008,256
Endowment spending-rate distributions and appropriations	**5,056**	5,064
	$ 8,977,730	$ 8,471,255

The System has the ability to structure its financial assets to be available as its general expenditures and other obligations become due. Cash in excess of daily requirements is invested. The System maintains a revolving credit facility, as discussed in Note 12, with the ability to borrow up to $165,000 in 2023 and 2022. As of December 31, 2023, $100,775 was available under this credit agreement, with $64,075 outstanding related to the line of credit and $150 outstanding related to the letters of credit. As of December 31, 2022, $89,975 was available under this credit agreement, with $73,000 outstanding related to the line of credit and $2,025 outstanding related to the letters of credit. In 2023, the Board approved the availability of up to $300,000 of taxable commercial paper. As of December 31, 2023, $226,000 was available to be issued, with $74,000 outstanding.

3. Liquidity and Availability (continued)

The System has certain investments where access to liquidity may be greater than one year. As such, these investments have been excluded from the amounts in the above table. The nature of these specific investments generally restricts the liquidity and availability of these investments to be available for general expenditure of the System within one year of the consolidated balance sheet date.

4. Net Patient Service Revenue and Net Patient Accounts Receivable

Net patient service revenue is recorded at the amounts that reflect the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, and others, and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, patients and third-party payors are billed several days after the services are performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied.

Performance obligations are based on the nature of the services provided. Revenue is recognized for performance obligations satisfied over time based on actual charges incurred in relation to total expected or actual charges. The System believes that this method provides an appropriate depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or continuing care services. Performance obligations for inpatient acute care services are measured from admission to the point when there are no further services required for the patient, which is generally the time of discharge. Performance obligations for continuing care services are satisfied over the defined period in the patient contract, typically monthly. Revenue for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, is recognized when: (1) services are provided, and (2) it is not likely that the patient requires additional services.

Because patient service performance obligations relate to contracts with a duration of less than one year, the System applies the exemption provided in the accounting standards and, therefore, is 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. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

4. Net Patient Service Revenue and Net Patient Accounts Receivable (continued)

The System utilizes the portfolio approach practical expedient for contracts related to net patient service revenue. The System accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, the System has concluded that revenue for a given portfolio would not be materially different if accounted for on a contract-by-contract basis.

The System has agreements with third-party payors that generally provide for payments to the System at amounts different from its established rates. For uninsured patients who do not qualify for charity or discounted care, the System recognizes revenue based on established rates, subject to certain discounts and implicit price concessions as determined by the System. The System determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies, and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration the System expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors.

Generally, patients who are covered by third-party payors are responsible for related co-pays, coinsurance, and deductibles, which vary in amount. The transaction price for patients with co-pays, coinsurance, and deductibles is estimated based on historical collection experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient revenue in the period of the change. For the years ended December 31, 2023 and 2022, adjustments arising from a change in the transaction price were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2023 and 2022 was not significant. As of December 31, 2023 and 2022, there are no known claims, disputes, or unsettled matters with any payor that would materially affect the System's revenue that have not been adequately provided in the accompanying consolidated financial statements.

4. Net Patient Service Revenue and Net Patient Accounts Receivable (continued)

The System is paid a prospectively determined rate for the majority of inpatient acute care and outpatient, skilled nursing, and rehabilitation services provided (principally Medicare, Medicaid, and certain insurers). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Payments for capital are received on a prospective basis for Medicare and on a cost reimbursement methodology for Medicaid. Payments are received on a prospective basis for the System's medical education costs, subject to certain limits. The System is paid for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the System and audits thereof by Medicare.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation, as well as significant regulatory action and, in the normal course of business, the System is subject to contractual reviews and audits, including audits initiated by the Medicare recovery audit contractor program. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. The System believes it is in compliance with applicable laws and regulations governing the Medicare and Medicaid programs and that adequate provisions have been made for any adjustments that may result from final settlements.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the expected value method. 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 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 or are no longer subject to such audit, review, or investigation. Patient service revenue on the accompanying consolidated statements of operations and changes in net assets was not materially affected in 2023 or 2022 by changes in estimated settlements from prior years.

(In Thousands)

4. Net Patient Service Revenue and Net Patient Accounts Receivable (continued)

The composition of net patient service revenue by major payor source for the years ended December 31 was as follows:

	Amount	Percent
2023		
Medicare	**$ 2,915,398**	**35%**
Medicaid	**1,473,259**	**18**
Commercial and managed care	**3,792,389**	**46**
Self-pay	**89,871**	**1**
Total all payors	**$ 8,270,917**	**100%**
2022		
Medicare	$ 2,652,062	35%
Medicaid	1,308,153	17
Commercial and managed care	3,502,429	47
Self-pay	38,165	1
Total all payors	$ 7,500,809	100%

Patient accounts receivable consist of amounts due for health care services provided. The System grants credit without collateral to its patients, most of whom are local residents and insured under various third-party arrangements. The System's concentration of credit risk relating to patient receivables is limited due to the diversity of patients and payors. Patient receivables consist of amounts due from government programs, commercial insurance companies, other group insurance programs, and private pay patients.

The evaluation of implicit price concessions and the probable amount expected to collect from patients is performed at a portfolio level; therefore, there is no expectation that further credit losses would need to be recorded. Historical credit loss percentages from write-offs and price concessions for patients are applied to the current patient receivable balance and recorded at the amount the System expects to collect. Management's expectation is that the historical credit loss experience is materially similar to the current expected credit losses, given the relatively short payment cycle on these receivables and low realization percentage on such self-pay accounts as a percent of gross charges. Management considers whether indicators of macro- or micro-economic shifts exist that would imply a deterioration or improvement in the historical loss rate should be considered in estimating the rate of current expected losses.

(In Thousands)

4. Net Patient Service Revenue and Net Patient Accounts Receivable (continued)

While the majority of expected credit loss exposure is measured in the implicit price concessions on amounts due from patients, the System also considers its credit loss experience on receivables for reimbursement from managed care and other third-party payors. Historically, the System has experienced immaterial write-offs related to accounts for bankrupt or insolvent payor entities; therefore, the System does not have a material reserve recorded for such third-party payors. The System is not aware of any other cash flow issues associated with its payors. While application of the current expected credit loss model requires evaluation of potential future credit losses on all non-self-pay accounts, management concludes that any potential impact is immaterial, given the low frequency of bankruptcies on the overall third-party payor volume.

The composition of net patient accounts receivable by major payor source as of December 31 was as follows:

	2023	2022
Medicare	**32%**	32%
Medicaid	**12**	10
Commercial and managed care	**44**	45
Self-pay	**12**	13
Total all payors	**100%**	100%

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

5. Premium Revenue and Health Care Claims Expense

The System, through its health plan, contracts with various providers for the provision of certain health care services to its members. The System compensates providers for services under risk-savings/sharing programs, diagnosis-related group contracts and discounted charges, and fee-for-service arrangements. The System contracts for primary care and specialty physician services, hospital services, mental health services, certain ancillary services, and pharmacy benefits.

5. Premium Revenue and Health Care Claims Expense (continued)

Health care costs are recognized as expenses when services are rendered and include an estimate of costs incurred but not reported (IBNR) at the consolidated balance sheet date. Under risk-savings/sharing programs, health care costs are recognized when the obligation is triggered under the providers' respective agreements. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known.

The System has various agreements with participating providers to furnish health care services to participating subscribers and their dependents. The agreements with certain participating providers call for reimbursement at various capitated rates or percentages of fees, less applicable member co-payments, coinsurance, or deductibles, on a current basis. The agreements provide for contingent reimbursement to participating providers based upon their adherence to quality and transformation of care metrics. Certain agreements also provide for gain or loss sharing based on the management of the cost and utilization of the membership within the provider network.

Premiums are billed and collected monthly from employer groups and members in Medicare, Medicaid, and commercial products. Premium revenue is recognized as income in the period members are entitled to receive services and is net of estimated uncollectible amounts and retroactive membership adjustments. Premiums receivable and reinsurance receivables are recorded at expected collectability, with reserves recognized based on product. Another layer of reserve is recorded based on a triangle of historical retroactive adjustments and write-offs.

The System's costs under provider arrangements are recognized as expenses when services are rendered and include an estimate of costs IBNR at the consolidated balance sheet date. Costs of health care and medical costs payable for health care services provided to members are estimated by management based on evaluations of providers' claims submitted and the provision for IBNR. The System estimates IBNR using standard actuarial loss development methodologies applied to loss development data summarized on the basis of the month in which services are rendered and the month in which claims are paid, processed, or received and considers other items, including, without limitation, historical levels of denied claims, medical cost trends, seasonal patterns, and changes in membership mix. Those estimates are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for IBNR are adequate. The estimates are continually reviewed and adjusted as necessary, as experience develops or new information becomes known.

(In Thousands)

5. Premium Revenue and Health Care Claims Expense (continued)

Adjustments to previously recorded claims reserve estimates are recorded on the consolidated statements of operations and changes in net assets in the period in which the estimates are revised. Such reserve adjustments consist of remeasurements of claims estimates and could be material in the future. Given the nature of the health care costs and provider billing requirements, as defined by the participating providers' agreements, amounts accrued at December 31 are predominantly paid in the following year.

Claims adjustment expenses are costs that are incurred in connection with the adjustment and recording of health care costs. On the consolidated statements of operations and changes in net assets, claims adjustment expenses are a component of salaries, wages, and employee benefits; supplies and other; and depreciation and amortization and totaled $202,968 and $166,431 in 2023 and 2022, respectively.

The following table provides a reconciliation of the beginning and ending balances of health plan claims payable as of December 31:

	2023	2022
Reserves at beginning of year	**$ 515,321**	$ 494,523
Less reinsurance recoverable	**(3,145)**	(1,216)
Reserves at beginning of year, net	**512,176**	493,307
Add provision for claims and claims adjustment expense occurring in:		
Current year	**5,155,408**	4,539,149
Prior years	**(23,573)**	(49,184)
Incurred losses during current year	**5,131,835**	4,489,965
Deduct payments for claims occurring in:		
Current year	**4,743,886**	4,111,724
Prior years	**369,788**	359,372
Claim payments during current year	**5,113,674**	4,471,096
Reinsurance recoverable	**3,923**	3,145
Reserves at end of year	**$ 534,260**	$ 515,321

(In Thousands)

5. Premium Revenue and Health Care Claims Expense (continued)

The System has maintained capital and surplus, as determined in accordance with accounting practices prescribed or permitted by the Michigan Department of Insurance and Financial Services, in which it is licensed, in excess of the minimum requirements. In 2023 and 2022, favorable development of previously recorded claims reserve estimates was experienced, due to lower than expected medical expense trends and favorable shifts in the utilization and cost of services.

The cumulative number of paid claims was 35,764 and 33,577 in 2023 and 2022, respectively. This measure includes medical service encounters plus pharmaceutical claims. The provided claims frequency amounts are not a precise tool for understanding utilization of medical services. They could be impacted by a variety of factors, including changes in provider billing practices, provider reimbursement arrangements, mixture of services, benefit design, and processing systems. The cumulative number of reported claims has been provided to comply with accounting standards and is not used by management in claims analysis. The cumulative number of reported claims may not be comparable to similar measures reported by other companies, as there is no universal claims frequency metric.

The following tables provide information about incurred and paid claims development as of December 31, net of reinsurance:

	Cumulative Incurred Claims Net of Reinsurance		
	2023	**2022**	**2021**
Claims incurred year:			
2023	**$ 5,155,408**	$ –	$ –
2022	**4,515,576**	4,539,149	–
2021	**4,413,423**	4,414,439	4,463,623

	Cumulative Paid Claims Net of Reinsurance		
	2023	**2022**	**2021**
Claims incurred year:			
2023	**$ 4,743,886**	$ –	$ –
2022	**4,481,512**	4,111,724	–
2021	**4,465,905**	4,465,071	4,105,699

5. Premium Revenue and Health Care Claims Expense (continued)

The information about incurred and paid claims development above is presented as required unaudited supplementary information.

6. Taxes and Government Fees

The System and most of its controlled subsidiaries are tax-exempt organizations, as described in Section 501(c)(3) of the Internal Revenue Code (IRC). Certain other subsidiaries are tax-exempt organizations under IRC Section 501(c)(4). Tax-exempt organizations are subject to income tax on any income from unrelated business activities and excise tax on highly paid individuals. The System also owns or controls certain taxable subsidiaries. Net deferred tax assets of $45,455 and $43,200 at December 31, 2023 and 2022, respectively, which are primarily related to net operating loss carryforwards, have respective valuation allowances of $37,218 and $31,487, respectively, recorded against them due to the uncertainty of realizing those benefits in the future, and are included in other long-term assets on the consolidated balance sheets.

7. Net Assets and Gifts With Donor Restrictions

Pledges receivable, which are unconditional promises to give cash and other assets, are recorded at fair value at the date the promise is received and are reported as contributions on the consolidated statements of operations and changes in net assets. If the gifts are received with donor stipulations that limit the use of the donated assets, the gifts are reported as net assets with donor restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as contributions to net assets without donor restrictions in the accompanying consolidated financial statements. Management believes these are Level 2 measurements (as defined in Note 14) recorded on a nonrecurring basis.

The System recognizes allowances for uncollectible promises receivable based on history with donors and current conditions. As of December 31, 2023 and 2022, allowances recognized were $6,466 and $6,607, respectively.

(In Thousands)

7. Net Assets and Gifts With Donor Restrictions (continued)

The System has received unconditional promises to give from donors, less allowances recognized, which include the following:

	December 31 2023	2022
In less than one year	**$ 32,758**	$ 27,403
In one to five years	**19,158**	19,433
In more than five years	**2,710**	6,944
	54,626	53,780
Less amounts representing interest	**(2,008)**	(1,636)
	52,618	52,144
Beneficial interest in perpetual pledge from Kent Community Hospital Foundation, less current portion of $1,063 and $1,325 in 2023 and 2022, respectively	**12,215**	20,223
Amount recognized on consolidated balance sheets	**$ 64,833**	$ 72,367

Endowment

The System's endowments consist of 360 individual funds established for a variety of purposes. The endowments include donor restricted endowment funds and, as required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. As of December 31, 2023 and 2022, such endowments with donor restrictions were $154,867 and $139,118, respectively. Additionally, there were 17 unrestricted funds in 2023 and 18 unrestricted funds in 2022 that were designated by the Board to function as a restricted fund, totaling $60,348 in 2023 and $53,665 in 2022.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the System to exercise ordinary and prudent care in good faith in its discretion to invest and appropriate some or all of the net appreciation or depreciation of investments. In the absence of a relevant law or donor stipulations, fiduciary responsibility to exercise ordinary care and prudence does not extend donor stipulations to the earnings and losses on investments. UPMIFA, along with other relevant state laws, guides the System's investment policies for restricted funds.

(In Thousands)

8. Property and Equipment

Property and equipment include the following:

	December 31	
	2023	**2022**
Land and improvements	**$ 336,198**	$ 360,595
Buildings	**4,091,988**	3,553,297
Equipment	**1,875,744**	1,788,408
Software	**664,618**	602,928
Leasehold improvements	**75,566**	80,128
In progress:		
Software	**68,687**	25,453
Construction and equipment	**483,722**	347,056
	7,596,523	6,757,865
Less accumulated depreciation and amortization	**(3,412,274)**	(2,875,521)
	$ 4,184,249	$ 3,882,344

The amounts included in accumulated depreciation and amortization related to software approximate $523,255 and $469,497 at December 31, 2023 and 2022, respectively.

The System has several ongoing construction projects and purchase commitments. These projects will largely be funded from existing cash reserves. Outstanding purchase commitments to complete various construction and renovation projects approximate $372,921 at December 31, 2023. Interest capitalized in 2023 and 2022 was not material.

The System has various hosting arrangements that provide access to software, but that do not include a software license. These arrangements are treated as service contracts, with implementation costs capitalized in alignment with internal-use software. The capitalized implementation costs are amortized over the term of the hosting arrangement, plus certain periods of options to extend the contract. The net capitalized implementation costs are classified within other long-term assets on the consolidated balance sheets, and the amortization is classified within supplies and other expense on the consolidated statements of operations and changes in net assets. At December 31, 2023 and 2022, capitalized gross implementation costs were $46,534 and $32,448 and accumulated amortization was $17,023 and $12,065, respectively.

(In Thousands)

9. Leases

System as a Lessee

The System has the right to use certain buildings, equipment, and vehicles held under operating or financing lease contracts. Each contract is evaluated for the right to control the use of identified property for a period of time in exchange for consideration. When capitalizing lease contracts, the System applies the practical expedient to account for each separate lease component of a contract and its associated non-lease components as a single lease component for all underlying asset classes. Variable lease payments, not based on an index or a rate, are typically based upon the System's operations and are therefore not included in the lease liability. Variable payments are instead recognized in the period in which the achievement of the specified target that triggers the payment becomes probable. The System also applies the portfolio approach to certain groups of similar leases when it is reasonably expected that the application of the leases model to the portfolio would not differ materially from the application to individual leases. Short-term leases (12 months or less) are not subject to capitalization per the System's accounting policy. Included in the lease term are any renewal options reasonably certain of being exercised. The System uses a risk-free discount rate commensurate with the lease term to determine the present value of lease payments used to record the right-of-use asset and related lease liability.

The table below summarizes the components of lease cost by lease, followed by disclosure of weighted average remaining lease term and weighted average discount rate by type:

	Year Ended December 31	
	2023	**2022**
Finance lease cost:		
Amortization of right of use assets	**$ 8,730**	$ 7,557
Interest on lease liabilities	**6,199**	6,075
Operating lease cost	**43,262**	45,338
Short-term lease cost	**14,009**	18,376
Variable lease cost	**15,592**	19,313
Total lease cost	**$ 87,792**	$ 96,659
Weighted average remaining lease term – finance (years)	**13.8**	**13.3**
Weighted average remaining lease term – operating (years)	**7.6**	**8.0**
Weighted average discount rate – finance	**8.8%**	8.0%
Weighted average discount rate – operating	**2.4%**	2.1%

(In Thousands)

9. Leases (continued)

The following table presents supplemental cash flow information:

Cash paid for amounts included in the measurement of lease liabilities is as follows:

	Year Ended December 31 2023	2022
Operating cash flows for operating leases	**$ 42,720**	$ 44,584
Operating cash flows for finance leases	**6,196**	6,038
Financing cash flows for finance leases	**6,718**	6,852

The following table reconciles the undiscounted cash flows to the operating and financing lease liabilities recorded on the consolidated balance sheet at December 31, 2023:

	Operating Leases	Financing Leases
2024	$ 32,749	$ 10,160
2025	25,698	9,248
2026	21,388	8,900
2027	15,499	7,321
Thereafter	94,376	102,938
Total minimum lease payments	189,710	138,567
Less amount of lease payments representing interest	(16,636)	(67,028)
Present value of future minimum lease payments	173,074	71,539
Less current obligations under leases	(34,306)	(5,167)
Long-term lease obligations	$ 138,768	$ 66,372

Related-party financing leases primarily consist of two building lease agreements, with remaining terms varying from 14 to 18 years. As of December 31, 2023 and 2022, $57,522 and $58,712, respectively, remain outstanding under these agreements.

(In Thousands)

9. Leases (continued)

System as a Lessor

The System has operating leases for real estate. The System also leases available space in its medical office buildings and certain other facilities to third parties, with lease terms ranging from 1 to 79 years. The System determines whether an arrangement contains a lease at the inception of the arrangement by assessing whether there is an identified asset and whether the arrangement conveys the right to control the use of the identified asset in exchange for consideration for a period of time. Certain variable lease payments are determined based on changes in facts and circumstances occurring after the commencement date, other than the passage of time. The System's lease terms include options to extend or terminate the lease when it is reasonably certain that the options will be exercised.

The System has lease agreements that require payments for lease and non-lease components and has elected to account for these as a single lease component provided that: (1) the lease component and the associated non-lease components have the same timing and pattern of transfer, and (2) the lease component, if accounted for separately, would be classified as an operating lease.

Lease income is included in other operating revenue on the consolidated statements of operations and changes in net assets. Lease income for the years ended December 31, 2023 and 2022 was $30,919 and $30,881, respectively.

The aggregate future lease income for operating leases as of December 31, 2023 was as follows:

2024	$ 14,754
2025	12,045
2026	10,496
2027	8,595
2028	6,618
Thereafter	71,594
Total	$ 124,102

(In Thousands)

10. Investments

The carrying value of investments is as follows:

	December 31 2023	December 31 2022
Cash and cash equivalents	**$ 252,555**	$ 287,368
Short-term investments	**446,668**	415,139
Government securities and obligations	**434,841**	383,681
Corporate debt securities and obligations	**516,841**	529,902
Mortgage and other asset-backed securities	**579,510**	470,631
Mutual funds – domestic	**618,062**	537,909
Mutual funds – international	**491,265**	431,541
Mutual funds – global	**354,013**	280,674
Equities and exchange-traded funds	**403,989**	316,817
Commingled funds	**1,638,825**	1,397,571
Hedge funds	**959,053**	835,968
Private capital	**382,841**	392,731
Real estate	**27,081**	21,348
Beneficial interest in trusts	**13,305**	14,081
	7,118,849	6,315,361
Due from (to) broker, net	**442**	(19,037)
	$ 7,119,291	$ 6,296,324
Amounts included on the consolidated balance sheets, as follows:		
Short-term investments	**$ 430,792**	$ 402,085
Investments	**6,688,499**	5,894,239
	$ 7,119,291	$ 6,296,324

The System's investments are exposed to various types and levels of risk. Fixed-income securities expose the System to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed-income securities is affected, particularly those with fixed interest rates and longer maturities. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell a particular security.

10. Investments (continued)

Equity securities expose the System to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both domestic and international. Performance risk is the risk associated with a particular company's operating performance. Liquidity risk, as previously defined, tends to be higher for certain alternative investments and international and domestic small capitalization equity companies. The System's alternative investment risk is limited to the investment's carrying value.

Alternative investments include hedge funds, private capital, and real estate. Hedge funds seek to produce positive investment returns regardless of market direction. These investments utilize multi-strategy managers, as well as multi-manager investments in other hedge funds through a fund of one. Underlying investments can include equities, fixed income, commodities, currencies, and derivatives. Audited information is only available annually. Carrying values are based on NAV, which are reported monthly. Management obtains and considers the audited consolidated financial statements of the fund of one when evaluating the overall reasonableness of the NAV.

Private capital, which may include private equity, private credit, and private real assets, does not have a readily determinable market. Fair values are based on information provided by the fund managers using either a market approach or an income approach, each of which requires a significant degree of judgment. There is no active trading market for these investments, and they are for the most part illiquid. Investments in private capital are measured at NAV.

For hedge funds and private capital investments, management reviews external information and may also use an investment consultant, in addition to using the System's own internal procedures. These procedures include a review of returns against benchmarks and discussions with the fund manager on performance, changes in personnel, changes in process, and evaluations of current market conditions.

Because of the inherent uncertainty of valuations of the hedge funds, private capital, real estate, and beneficial interests in trusts, values may differ materially from the values that would have been used had a ready market existed.

(In Thousands)

10. Investments (continued)

The uses of investments are as follows:

	December 31 2023	December 31 2022
Unrestricted	**$ 4,606,302**	$ 4,073,932
For health plan operations	**1,518,318**	1,376,876
Board designated	**458,310**	416,438
For donor restricted purposes	**432,725**	347,375
For captive insurance operations	**95,098**	66,902
Restricted funds (by bond indenture agreement)	**72**	5,756
Restricted funds for condominium capital (by state)	**3,628**	3,709
Restricted funds (by state insurance commissioner)	**2,482**	2,980
Restricted funds (by Centers for Medicare & Medicaid Services agreement)	**2,356**	2,356
	$ 7,119,291	$ 6,296,324

Investment returns (losses), net, as reported on the consolidated statements of operations and changes in net assets, consist of the following:

	Nonoperating	Restricted Funds	Year Ended December 31 2023	Year Ended December 31 2022
Investment income	**$ 210,500**	**$ 2,863**	**$ 213,363**	$ 135,002
Net realized (losses) gains on sale of investments	**(7,626)**	**1,257**	**(6,369)**	(28,754)
	202,874	**4,120**	**206,994**	106,248
Less investment management fees	**(7,671)**	**(403)**	**(8,074)**	(9,171)
	195,203	**3,717**	**198,920**	97,077
Net unrealized gains (losses) on investments held	**626,873**	**23,448**	**650,321**	(942,423)
	$ 822,076	**$ 27,165**	**$ 849,241**	$ (845,346)

(In Thousands)

11. Investments in Joint Ventures

The following is a summary of investments in joint ventures, which were not consolidated, at December 31:

	Ownership	2023	2022
Beaumont Urgent Care by Wellstreet LLC	50%	**$ 15,340**	$ 19,575
FMS Beaumont Health LLC	15	**12,292**	12,292
Beaumont ASHN LLC	10	**9,593**	9,593
North Flight Aero Med LLC	50	**6,960**	7,685
Vibra of Southeastern Michigan LLC	49	**5,980**	4,837
All others		**16,047**	18,035
		$ 66,212	$ 72,017

The investments in nonconsolidated entities include investments in partnerships that align with the System's core mission as indicated in Note 1. The System records a portion of investees' income, based on ownership. In 2023, $7,609 of gains were recognized in other operating revenue and $9,224 of losses were recognized in supplies and other expenses on the consolidated statements of operations and changes in net assets. In 2022, a net loss of $6,209 was recognized in supplies and other expenses on the consolidated statements of operations and changes in net assets. The System received distributions from these investees of $6,647 and $12,809 in 2023 and 2022, respectively.

12. Borrowings

Obligated Groups

The System operates under a Master Trust Indenture (MTI) that provides for issuance of long-term debt under an obligated group structure. The members of the System Obligated Group under the terms of the MTI, dated June 1, 1998, Conformed and Restated as of April 15, 2022, are Corewell Health, Corewell Health Grand Rapids, and Corewell Health East (including certain legacy legal entities operating under Beaumont Health). Certain of Corewell Health's subsidiaries are Designated Affiliates under the MTI (the Designated Affiliates). The Designated Affiliates consist of Corewell Health Greenville Hospital; Corewell Health Continuing Care, including its wholly owned subsidiaries; Corewell Health Gerber Hospital; and Corewell Health Zeeland Hospital. The System Credit Group consists of the System Obligated Group and the Designated Affiliates.

(In Thousands)

12. Borrowings (continued)

Corewell Health South had a MTI that provided for issuance of long-term debt under an obligated group structure. The member of the Corewell Health South Obligated Group under the terms of the MTI, dated December 15, 1993, as amended, was Corewell Health South Hospitals at Niles and St. Joseph, Inc. On December 14, 2023, the outstanding long-term debt secured by Corewell Health South obligations was optionally redeemed and, as a result, the related obligations were paid in full and cancelled, and the Corewell Health South MTI was terminated.

Long-term debt consists of the following obligations:

	December 31	
	2023	**2022**
System Credit Group		
Hospital Facilities Refunding Revenue Bonds:		
Series 2022A at interest rates from 4.00% to 5.00%, maturing in varying amounts through 2042	**$ 715,220**	$ 759,395
Series 2022B, floating rate note (4.62% at December 31, 2023), maturing in varying amounts through 2047	**91,530**	91,530
Series 2019A at an interest rate of 3.49%, maturing in 2049	**353,390**	353,390
Series 2019B at interest rates from 2.19% to 3.12%, maturing in varying amounts through 2034	**77,760**	84,980
Series 2017A, variable rate demand bonds (5.00% at December 31, 2023), maturing in varying amounts through 2045	**56,490**	56,490
Series 2016A at interest rates from 4.00% to 5.00%, maturing in varying amounts through 2046	**300,000**	300,000
Series 2015A, variable rate demand bonds (4.12% at December 31, 2023), maturing in varying amounts through 2047	**78,400**	78,400
Series 2015B at an interest rate of 3.50%, maturing in varying amounts through 2030	**26,500**	29,815
Series 2014A, variable rate demand bonds (4.30% at December 31, 2023), maturing in varying amounts through 2047	**52,725**	55,140

(In Thousands)

12. Borrowings (continued)

	December 31	
	2023	**2022**
System Credit Group (continued)		
Hospital Facilities Refunding Revenue Bonds (continued):		
Series 2014B, variable rate demand bonds (4.75% at December 31, 2023), maturing in varying amounts through 2047	**$ 40,025**	$ 40,025
Series 2012A, variable rate demand bonds (5.05% at December 31, 2023), maturing in varying amounts through 2045	**56,490**	56,490
Series 2011B, variable rate demand bonds (4.86% at December 31, 2023), maturing in varying amounts through 2047	**103,770**	103,770
Series 2008B, variable rate demand bonds (3.90% at December 31, 2023), maturing in varying amounts through 2047	**50,000**	50,000
Loan bearing interest at 7.38%, maturing in October 2027	**12,248**	14,944
Commercial paper program	**74,000**	–
Revolving credit facility	**64,075**	73,000
Total System Credit Group	**2,152,623**	2,147,369
Corewell Health South Obligated Group		
Series 2006, variable rate demand bonds, extinguished as of December 31, 2023	–	34,475
Series 2003, variable rate demand bonds, extinguished as of December 31, 2023	–	19,100
Series 2002, variable rate demand bonds, extinguished as of December 31, 2023	–	19,800
Total Corewell Health South Obligated Group	–	73,375

(In Thousands)

12. Borrowings (continued)

	December 31 2023	December 31 2022
Other entities		
Loan bearing interest based on one-month Secured Overnight Financing Rate (SOFR) 5.36% at December 31, 2023), plus 75 basis points, maturing in July 2029	**$ 15,671**	$ 16,917
Loan bearing interest at 2.33%, maturing in September 2024	**5,961**	6,335
Loan bearing interest at 3.44%, maturing in June 2024	**4,939**	5,223
Loan bearing interest at 6.52%, maturing in December 2030	**29,434**	32,195
Other	**9,650**	3,894
	65,655	64,564
Total debt	**2,218,278**	2,285,308
Add net bond premium (discount)	**72,362**	83,011
Less current portion of bond premium	**(9,644)**	(11,399)
Less current maturities of principal	**(156,127)**	(69,105)
Less short-term debt	**(152,400)**	(78,400)
Add discount on short-term debt	**730**	–
Less debt financing costs	**(10,364)**	(13,000)
Total long-term debt	**$ 1,962,835**	$ 2,196,415

The System amortizes discounts and premiums on bonds issued using the bonds outstanding method over the lives of the bonds.

The following is a summary of the System's bond premiums and discounts:

	December 31 2023	December 31 2022
Premiums on debt	**$ 96,799**	$ 91,484
Discounts on debt	**(1,027)**	–
Less accumulated amortization	**(23,410)**	(8,473)
	$ 72,362	$ 83,011

12. Borrowings (continued)

In May 2022, the Michigan Finance Authority issued the Hospital Revenue Refunding Bonds Series 2022A and 2022B bonds, totaling $890,890. The premium related to the issuance of the 2022 bonds was $73,285. The Series 2022A bonds totaling $872,645, including premium, were issued with an initial term of 20 years. The Series 2022B bonds, totaling $91,530, were issued with an initial term of 25 years. Proceeds were used to refund or defease certain amounts outstanding on the Beaumont Health Series 2012A, 2012Z, 2013A, 2014D, 2015A, 2016B, and 2017A bonds. The gain on extinguishment of debt of $5,128 for the year ended December 31, 2022 was recorded as other nonoperating revenue on the consolidated statement of operations and changes in net assets.

In October 2019, the Series 2019A and 2019B bonds were issued, totaling $438,370. The Series 2019A fixed rate taxable bonds, totaling $353,390, were issued by the System with an initial term of 30 years. The Series 2019B fixed rate taxable bonds, totaling $84,980, were issued by the Kent Hospital Finance Authority as Hospital Revenue Refunding Bonds and have maturities with an initial term of 15 years.

In December 2017, the Kent Hospital Finance Authority issued the Hospital Revenue Refunding Bonds Series 2017A Bonds, totaling $56,490. Proceeds were used to refund all amounts outstanding on the Series 2012B Bonds. The Series 2017A Bonds were issued directly to a bank, with a term expiring, as amended, on March 1, 2029, and have maturities with an initial term of 28 years.

In February 2016, the Michigan Finance Authority issued the Hospital Revenue Bonds Series 2016A fixed rate bonds for total proceeds of $300,000 for approved capital projects. Premium on issuance of the Series 2016A bonds was $23,514, of which $18,199 was acquired on February 1, 2022. The Series 2016A bonds have an initial term of 30 years.

In January 2015, the Kent Hospital Finance Authority issued the Hospital Revenue Refunding Bonds Series 2015A Windows Bonds, totaling $78,400. The Series 2015A variable rate bonds are supported by the System's self-liquidity and have maturities with an initial term of 32 years. The 2015A bonds can be tendered on any day by the bondholders, and the System has up to 210 days to remarket the bonds, convert the bonds to a different mode, or pay off the bonds. As such, the 2015A bonds are classified as short-term debt on the consolidated balance sheets. As of December 31, 2023 and 2022, no bonds had been tendered.

12. Borrowings (continued)

In February 2015, the 2015B taxable bonds, totaling $50,000, were issued directly to an insurance company and have an initial term of 15 years.

In January 2014, the Kent Hospital Finance Authority issued the Hospital Revenue Refunding Bonds Series 2014A and 2014B Bonds, totaling $111,850. The Series 2014A and 2014B Bonds were issued directly to banks, with terms expiring, as amended, on January 2, 2025 and March 1, 2027, respectively, and have maturities with an initial term of 33 years.

In January 2012, the Kent Hospital Finance Authority issued the Hospital Revenue Refunding Bonds Series 2012A Bonds, totaling $56,490. The Series 2012A Bonds were issued directly to a bank, with a term expiring, as amended, on July 1, 2026, and have maturities with an initial term of 33 years.

In June 2011, the Kent Hospital Finance Authority issued the Hospital Revenue Refunding Bonds Series 2011A and 2011B, totaling $212,860, including premium. The Series 2011A Bonds have an initial term of 18 years, and $48,650 was refunded with the Series 2019 Bonds. In November 2021, the 2011A bonds became callable and were subsequently paid off. The Series 2011B Bonds were issued directly to a bank, with a term expiring, as amended, on April 1, 2027, and have an initial term of 36 years.

In April 2008, the Kent Hospital Finance Authority issued the Hospital Revenue and Refunding Bonds Series 2008B, totaling $50,000. Variable rate bonds are remarketed weekly, with the option to convert to a fixed rate, and have an initial term of 40 years. The bonds are secured by a standby bond purchase agreement scheduled to terminate on March 18, 2025.

In January 2006, the Hospital Finance Authority of the City of St. Joseph issued the Hospital Revenue Bonds Series 2006, totaling $50,000. The bonds are pledged by essentially all revenue received by the Lakeland Obligated Group, unless specifically restricted by the donor. Variable rate bonds are remarketed weekly and have an initial term of 29 years. The bonds were paid off on December 14, 2023.

In December 2003, the Hospital Finance Authority of the City of St. Joseph issued the Hospital Revenue Bonds Series 2003, totaling $41,525. The bonds are pledged by essentially all revenue received by the Lakeland Obligated Group, unless specifically restricted by a donor. Variable rate bonds are remarketed weekly and have an initial term of 28 years. The bonds were paid off on December 14, 2023.

(In Thousands)

12. Borrowings (continued)

In January 2002, the Hospital Finance Authority of the City of St. Joseph issued the Hospital Revenue Bonds Series 2002, totaling $42,000. The bonds are pledged by essentially all revenue received by the Lakeland Obligated Group, unless specifically restricted by a donor. Variable rate bonds are remarketed weekly and have an initial term of 30 years. The bonds were paid off on December 14, 2023.

Other long-term debt consists primarily of term loans and other obligations related to the acquisition of property and equipment. The System has a syndicated revolving credit facility with various banks. Under this credit agreement, the System may borrow up to $165,000. The credit agreement expires on December 23, 2024, at which time all amounts outstanding will become due. Interest is paid at a floating rate based on the designated Bloomberg Short-Term Bank Yield Index, plus 52.5 basis points. As of December 31, 2023, there was $64,075 in principal outstanding on the line of credit. As of December 31, 2022, there was $73,000 in principal outstanding on the line of credit.

In 2023, the Corewell Health Board approved issuing up to $300 million of taxable commercial paper. As of December 31, 2023, $74,000 of commercial paper was issued. The maximum maturity for commercial paper is 270 days. As such, the commercial paper is classified as short-term debt on the consolidated balance sheets. Discount on the issuance of the commercial paper was $1,027.

The System is required to meet certain debt coverage and other covenants. As of December 31, 2023, the System was in compliance with all covenants.

Principal maturities of long-term debt, due subsequent to December 31, 2024, according to the long-term amortization schedule, are as follows:

2025	$ 74,322
2026	72,269
2027	166,746
2028	76,521
Thereafter	1,519,893

Interest paid on long-term debt totaled $90,504 and $82,554 in 2023 and 2022, respectively.

(In Thousands)

13. Interest Rate Swaps

The System has entered into interest rate swap agreements to manage exposure to certain risks. The interest rate swap agreements utilized by the System effectively modify the System's exposure to interest rate risk. Certain interest rate swap agreements convert the System's floating rate debt to a fixed rate basis for the next 23 years, thus reducing the impact of interest rate changes on future interest expense. This involves the receipt of floating rate amounts in exchange for fixed rate interest payments over the life of the agreements, without an exchange of the underlying principal amount.

Outstanding interest rate swap agreements are as follows:

Notional Amount	Maturity Date	Rate Received	Rate Paid
$ 251,520	January 2047	67.000% of SOFR (5.40% at December 31, 2023) plus .180%	Fixed rate of 3.698%
44,025	July 2031	62.400% of SOFR plus 0.360%	Fixed rate of 3.857%
4,700	January 2026	66.000% of SOFR plus .080%	Fixed rate of 3.853%

On September 19, 2023, three interest rate swap agreements with a total notional value of $70,100 were optionally terminated. The mark to market price prior to the termination was $4,436. On December 1, 2023, an interest rate swap agreement with a notional value of $6,140 was terminated due to end of contract.

Guidance on fair value accounting stipulates that a credit valuation adjustment (CVA) be applied to the mark-to-market valuation position of interest rate swaps to more clearly capture the fair value of such instruments. As of December 31, 2023, the fair value of the interest rate swaps was a liability of $36,375, which is net of CVA of $1,625. As of December 31, 2022, the fair value of the interest rate swaps was a liability of $44,086, which is net of CVA of $2,917. Changes in the fair value of these derivative financial instruments are included on the accompanying consolidated statements of operations and changes in net assets within other nonoperating revenue (expenses).

(In Thousands)

13. Interest Rate Swaps (continued)

The System recorded the following gain within net assets without donor restrictions on the accompanying consolidated statements of operations and changes in net assets related to these derivative financial instruments:

	Year Ended December 31 2023	2022
Gain on interest rate swaps, net:		
Unrealized gain on interest rate swaps	**$ 3,275**	$ 79,444
Realized loss on interest rate swaps	**(863)**	(9,414)
	$ 2,412	$ 70,030

The System has used various derivative contracts in connection with certain prior obligations and investments. Although minimum credit ratings are required for counterparties, this does not eliminate the risk that the counterparty may fail to honor its obligations. Derivative contracts are subject to periodic mark-to-market valuations. A derivative contract may, at any time, have a positive or negative value to the System. In the event that the negative value reached certain thresholds established in the derivative contracts, the System is required to post collateral, which could adversely affect its liquidity. Collateral arrangements reduce the credit exposure and are considered in determining the CVA. The aggregate fair value of all derivative instruments, with credit-risk-related contingent features, which are in a liability position on December 31, 2023 and 2022, was $36,375 and $44,055, respectively. There was no collateral posted at December 31, 2023 or 2022. The System's accounting policy is not to offset collateral amounts against fair value amounts recognized for derivative instrument obligations.

14. Fair Value Measurements

Fair value is 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. Accounting Standards Codification 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

14. Fair Value Measurements (continued)

Certain of the System's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, fixed-income, and equity instruments, and interest rate swap contracts. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

> *Level 1* – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments, such as money market securities and listed equities.
>
> *Level 2* – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date. Instruments in this category include certain U.S. government agency and sponsored entity debt securities as well as corporate fixed income securities and interest rate swap contracts.
>
> *Level 3* – Pricing inputs include those that are significant to the fair value of the financial asset or liability and are not observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 consists of private capital.

The carrying values of cash and cash equivalents, patient accounts receivable, other accounts receivable, and accounts payable and accrued expenses are reasonable estimates of fair value due to the short-term nature of these financial instruments. The carrying value of pledges receivable is estimated by management to approximate fair value. The fair values of the System's fixed rate bonds are based on quoted market prices for the same or similar issues and total $1,457,049 and $1,488,544 as of December 31, 2023 and 2022, respectively, and represent Level 2 measurements. The fair value of the System's variable rate debt approximates the carrying amount as of December 31, 2023 and 2022, and excludes the impact of third-party credit enhancements. The variable rate debt represents a Level 2 measurement.

14. Fair Value Measurements (continued)

The fair values of the interest rate swap agreements are based on forward interest rate curves and reflect a credit spread adjustment in order to reflect the CVA for nonperformance risk. The CVA is derived from other comparably rated entities' bonds priced in the market. Due to the volatility of the capital markets, there is a reasonable possibility of significant changes in fair value and additional gains or losses in the near term subsequent to December 31, 2023. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. The System's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including consideration of inputs specific to the asset.

Investments recorded at fair value include the following:

Cash and cash equivalents, certificates of deposit, government securities, equity securities, exchange-traded funds, and mutual funds – Observable quoted prices for identical assets in active markets determine the fair value for these financial assets. As a result, these securities have been classified as Level 1 investments.

Asset-backed securities, mortgage-backed securities, and corporate obligations – Observable inputs derived from quoted prices for similar assets in active markets determine the fair value of these financial assets. As a result, these securities have been classified as Level 2 investments.

Beneficial interest in trusts funds – The underlying investments in these funds, which consist primarily of securities with quoted prices in active markets, determine fair value for these financial assets. As a result, these immaterial funds have been classified as Level 2 investments.

14. Fair Value Measurements (continued)

Alternative Investments

Commingled funds include investments primarily in marketable equity and equity-related securities, including domestic, international, global, and emerging market funds, as well as fixed income. The investment manager and administrator calculate the NAV. As investments in commingled funds are measured at NAV, they are excluded from the fair value hierarchy in the following tables. As of December 31, 2023, all commingled funds are redeemable in periods from one month to three years with 10 to 150 days' notice.

Hedge funds include alternative investments in marketable equity, convertible, fixed-income and debt securities, merger arbitrage, derivatives, credit, options, and certain illiquid securities. Some of the System's alternative investments in hedge funds, of approximately $479,928 and $451,795 as of December 31, 2023 and 2022, respectively, are accounted for using the equity method of accounting and are therefore excluded from the following fair value tables. The remainder of the hedge funds' fair values have been estimated using NAV and are therefore excluded from the fair value hierarchy in the following tables. Hedge funds include both redeemable and nonredeemable investments. As of December 31, 2023, all hedge funds are redeemable in periods from one quarter to four years with 30 to 90 days' notice.

Private capital funds include alternative investments in private equity, including leveraged buyouts, growth equity, and venture capital in a variety of industries, as well as private credit. Private real asset funds include alternative investments in equity, equity-related, and debt securities in commercial and residential real estate and natural resources. There is no active trading market for these investments, and they are for the most part illiquid. Fair value is based on the NAV per share provided by the fund managers and, therefore, private capital funds are excluded from the fair value hierarchy in the following tables. These investments are nonredeemable, but receive distributions on liquidation of the investee's underlying assets. The System expects underlying assets in this category to be liquidated and distributed within 15 years. As of December 31, 2023 and 2022, unfunded commitments for private capital funds and real estate funds totaled approximately $116,157 and $128,309, respectively.

(In Thousands)

14. Fair Value Measurements (continued)

The value of financial assets measured at fair value on a recurring basis was determined using the following inputs at December 31, 2023:

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Cash and cash equivalents	$ 1,812,774	$ 1,812,774	$ –	$ –
Short-term investments	446,668	163,843	282,825	–
Government securities and obligations	435,156	431,309	3,847	–
Corporate debt securities and obligations	519,423	4,086	515,337	–
Mortgage and other asset-backed securities	579,510	–	579,510	–
Mutual funds – domestic	904,308	904,308	–	–
Mutual funds – international	513,004	513,004	–	–
Mutual funds – global	368,786	368,786	–	–
Equities and exchange-traded funds	403,989	403,593	396	–
Beneficial interests in trusts	13,305	13,305	–	–
Total financial assets at fair value	5,996,923	$ 4,615,008	$ 1,381,915	$ –
Investments measured at NAV:				
Commingled funds	1,638,825			
Hedge funds	479,125			
Private capital	382,841			
Real estate	27,081			
Total investments measured at NAV	2,527,872			
Due to broker, net	442			
	$ 8,525,237			
Financial liabilities:				
Interest rate swap agreements	$ 36,375	$ –	$ 36,375	$ –
Total financial liabilities at fair value	$ 36,375	$ –	$ 36,375	$ –

(In Thousands)

14. Fair Value Measurements (continued)

The value of financial assets measured at fair value on a recurring basis was determined using the following inputs at December 31, 2022:

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Cash and cash equivalents	$ 2,216,113	$ 2,216,113	$ –	$ –
Short-term investments	415,772	172,610	243,162	–
Government securities and obligations	384,008	325,150	58,858	–
Corporate debt securities and obligations	532,300	–	532,300	–
Mortgage and other asset-backed securities	470,631	–	470,631	–
Mutual funds – domestic	784,952	782,642	2,310	–
Mutual funds – international	443,450	442,383	1,067	–
Mutual funds – global	292,955	292,955	–	–
Equities and exchange-traded funds	316,817	260,127	56,690	–
Beneficial interests in trusts	14,081	–	14,081	–
Total financial assets at fair value	5,871,079	$ 4,491,980	$ 1,379,099	$ –
Investments measured at NAV:				
Commingled funds	1,397,571			
Hedge funds	384,173			
Private capital	392,731			
Real estate	21,348			
Total investments measured at NAV	2,195,823			
Due to broker, net	(19,037)			
	$ 8,047,865			
Financial liabilities:				
Interest rate swap agreements	$ 44,086	$ –	$ 44,086	$ –
Total financial liabilities at fair value	$ 44,086	$ –	$ 44,086	$ –

(In Thousands)

15. Professional and General Liability and Other Insurance

Corewell Health self-insures primary medical professional and general liability claims, which is funded by actuarially computed premium payments with specific retention limits. Coverage is purchased on a claims-made basis from its wholly owned captive insurance company for claims more than the primary level of self-insurance. The captive limits its liability through the purchase of reinsurance from unrelated reinsurance companies. Amounts exceeding the insurance provided through self-insurance and the captive insurance company would be the responsibility of the System.

Malpractice and general liability claims have been asserted against the System's subsidiaries by various claimants and are in various stages of discovery. Also, known and unknown incidents have occurred through December 31, 2023, that may result in the assertion of additional claims. Although the System is unable to precisely estimate the ultimate cost of settlements, management has accrued its best estimate for claims identified and an amount for potential claims IBNR based on historical experience. The estimated cost of claims is actuarially determined based upon past experience. The self-insured portion of the liability is discounted using a discount rate of 4.10% and 2.80% for 2023 and 2022, respectively. The portion of the liability related to the wholly owned captives is not discounted. Provisions for malpractice claims charged to operations amounted to $61,557 and $80,664 in 2023 and 2022, respectively, which include associated defense expense and changes to IBNR.

The System's risk management plan for other insurance is a combination of retained and commercially insured limits. The System has insurance contracts whereby it transfers the risk of exposure to potential losses arising from large claims. Management believes, after considering legal counsel and claim management advisors' evaluations of all actions and claims, that insurance coverage and accruals for estimated losses are adequate to cover expected settlements.

The following is a summary of the System's professional and general liability recognized on the consolidated balance sheets at December 31:

	2023	2022
Accounts payable and accrued expenses	**$ 84,363**	$ 73,015
Professional liability accrual	**296,108**	316,118
	$ 380,471	$ 389,133

(In Thousands)

16. Employee Benefit Plans

Defined Contribution Plans

The System maintains defined contribution retirement plans. Employer contributions to those 403(b) and 401(a) plans are based on either a percentage of a participant's contribution, a percentage of a participant's compensation, or a discretionary percentage of a participant's contribution. Contributions to the defined contribution plans were $136,793 and $133,097 in 2023 and 2022, respectively.

Deferred Compensation Plans

The System has multiple deferred compensation plans, in which the investment is recognized in other long-term assets and the payable is recognized in long-term liabilities on the consolidated balance sheets. The balances of these plans at December 31 are as follows:

	2023	**2022**
457(b) deferred compensation	**$ 289,558**	$ 234,762
457(f) deferred compensation	**29,985**	33,664
Other deferred compensation plans	**19,630**	19,488
	$ 339,173	$ 287,914

Defined Benefit Plans

Corewell Health sponsors four defined benefit plans. One plan is sponsored by Corewell Health West and three are sponsored by Corewell Health East. The plan sponsored by Corewell Health West is a defined benefit pension plan that covers a portion of Corewell Health West team members. The benefits are based on years of service and compensation. This defined benefit plan has been frozen, and no new participants are permitted.

16. Employee Benefit Plans (continued)

Corewell Health East sponsors three defined benefit pension plans that have been closed to new entrants. These plans cover a portion of Corewell Health East team members. One of the Corewell Health East plans changed from a traditional final average pay plan to a cash balance formula for future years of service effective January 1, 2008. Eligible team members now receive a credit of 5% of base pay earned for each year after 2007. Additionally, account balances increase through an annual interest credit. Effective January 1, 2016, the plan has been closed to new entrants. Corewell Health East also sponsors two other cash balance pension plans covering a portion of Corewell Health team members. The plans provide a cash balance benefit with contributions based on years of service and compensation. Additionally, account balances increase through an annual interest credit. Effective July 1, 2013, the plans no longer accept new participants.

Contributions to Corewell Health's plans are sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, as amended, plus such additional amounts as may be determined to be appropriate from time to time.

The System recognizes the net funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of its pension plans in either other assets or accrued pension obligation on the consolidated balance sheets. The net funded status of the Corewell Health West pension plan was an asset of $21,722 and $16,501 at December 31, 2023 and 2022, respectively. The net funded status of the Corewell Health East pension plans was a liability of $225,155 and $215,193 at December 31, 2023 and 2022, respectively. The annual adjustment to net assets without donor restrictions represents the unrecognized actuarial losses, unrecognized prior service credits, and settlement gains, which will be subsequently recognized as net periodic pension cost. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same period will be recognized as a component of net assets without donor restrictions. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as amounts recognized in net assets without donor restrictions.

(In Thousands)

16. Employee Benefit Plans (continued)

A summary of the information related to the System's defined benefit plans is combined as follows:

	December 31 2023	December 31 2022
Change in benefit obligation		
Projected benefit obligation at beginning of year	**$ 1,890,112**	$ 305,622
Projected benefit obligation acquired	**–**	2,049,368
Interest cost	**99,713**	68,727
Service cost	**27,171**	30,016
Actuarial losses (gains)	**90,833**	(420,889)
Benefits paid	**(120,579)**	(94,764)
Settlements	**(13,191)**	(47,968)
Projected benefit obligation at end of year	**1,974,059**	1,890,112
Change in net plan assets		
Fair value of plan assets at beginning of year	**1,691,420**	345,558
Fair value of plan assets acquired	**–**	1,823,789
Actual return (loss) on plan assets	**152,976**	(395,095)
Employer contributions	**60,000**	59,900
Benefits paid	**(120,579)**	(94,764)
Settlement	**(13,191)**	(47,968)
Fair value of plan assets at end of year	**1,770,626**	1,691,420
Net funded status	**$ (203,433)**	$ (198,692)
Amount recognized within other long-term assets	**$ 21,722**	$ 16,501
Amount recognized within accrued pension obligation	**(225,155)**	(215,193)
Net funded status and amount recognized on consolidated balance sheets	**$ (203,433)**	$ (198,692)
Accumulated benefit obligation at end of year	**$ (1,953,979)**	$ (1,867,318)

Actuarial losses of $90,833 related to 2023 increased the projected benefit obligation and are primarily attributable to negative changes in the demographic experience and discount rate.

(In Thousands)

16. Employee Benefit Plans (continued)

The amounts included in net assets without donor restriction, including amounts arising during the year and amounts reclassified into net periodic benefit cost, as of December 31, are as follows:

	Net Gain (Loss)	Prior Service Credit	Total
2023			
Included in net assets – January 1, 2023	**$ 180,947**	**$ (1,092)**	**$ 179,855**
Reclassified to net periodic benefit cost	**3,690**	**108**	**3,798**
Recognized due to settlement	**(6,643)**	**–**	**(6,643)**
Arising during the year	**58,559**	**–**	**58,559**
Included in net assets – December 31, 2023	**$ 236,553**	**$ (984)**	**$ 235,569**

	Net Gain (Loss)	Prior Service Credit	Total
2022			
Included in net assets – January 1, 2022	$ 112,130	$ (1,235)	$ 110,895
Reclassified to net periodic benefit cost	(5,081)	143	(4,938)
Recognized due to settlement	(12,852)	–	(12,852)
Arising during the year	86,750	–	86,750
Included in net assets – December 31, 2022	$ 180,947	$ (1,092)	$ 179,855

The estimated amounts to be amortized from unrecognized net assets into net period benefit cost during 2024 are as follows:

Year ending December 31, 2024	
Amortization of prior service credits	$ 74
Amortization of net actuarial loss	(4,572)
Net amount to be recognized in 2024	$ (4,498)

(In Thousands)

16. Employee Benefit Plans (continued)

The following table provides the components of net periodic benefit cost for the System's plans included on the consolidated statements of operations and changes in net assets:

	Year Ended December 31 2023	2022
Components of net periodic benefit cost		
Interest cost	**$ 99,713**	$ 68,727
Service cost	**27,171**	30,016
Expected return on plan assets	**(120,705)**	(112,543)
Amortization of unrecognized prior service credit	**(108)**	(143)
Amortization of unrecognized net loss	**(3,690)**	5,081
Net periodic income	**2,381**	(8,862)
Settlement cost	**6,643**	12,852
Net pension cost	**$ 9,024**	$ 3,990

The components of net periodic benefit cost, other than service costs, are included in nonoperating expenses on the consolidated statements of operations and changes in net assets.

The assumptions used to determine the benefit obligation and net periodic benefit cost of the System's plans are set forth below:

	2023	2022
Weighted average assumptions used to determine benefit obligation as of December 31		
Discount rate	**5.21%**	5.47%
Rate of compensation increase	**3.21**	3.23
Weighted average assumptions used to determine net periodic benefit cost as of December 31		
Discount rate for periodic pension costs	**5.45%**	3.50%
Expected return on plan assets	**6.35**	5.88
Rate of compensation increase	**3.21**	3.00

16. Employee Benefit Plans (continued)

Disclosures About Investment Policies and Strategies

The System makes investment allocation decisions to achieve returns in excess of the plan's actuarial return assumption, while reducing the plan's funded status volatility and remaining consistent with its long-term investment horizon. The System establishes objectives, policies, and guidelines; allocates assets in an appropriate and prudent fashion in accordance with fiduciary requirements of the Employee Retirement Income Security Act of 1974; and ensures that plan assets are sufficient to meet the obligations of the plans as they come due.

The System controls and coordinates the investment management activities of the plans by engaging professional investment management firms that must adhere to policy guidelines and objectives. An independent investment consultant is used to measure and report on investment performance; to perform asset/liability modeling studies and recommend changes to objectives, guidelines, manager, or asset class structure; and to communicate current investment trends and issues.

Based on consideration of the plan's projected benefit obligation and long-term investment horizon, the plan's ability to tolerate risk is in the moderate-to-aggressive range. Asset allocation is consistent with this level of risk, with assets diversified among multiple asset classes. Minimum and maximum ranges are established for each asset class to control risk and maximize the effectiveness of the plan's asset allocation strategy. Asset allocation is reviewed and rebalanced quarterly. Derivative instruments may only be utilized when consistent with the manager's stated style and objectives and may not be used for speculative purposes. Investment is prohibited in companies that manufacture tobacco products. Specific investment guidelines, restrictions, and investment return objectives exist for each asset class and corresponding investment manager. Certain investment strategies (swaps, puts, and calls) are deployed to extend duration of the plan's assets to achieve a closer match with the duration of the plan's liabilities or to reduce exposure during swings in interest rates. These techniques are designed to reduce the volatility in the plan's asset/liability ratios. The expected return on plan assets is determined by applying the target allocation in each asset category of plan investments to the anticipated return for each asset category based on historical and projected returns.

(In Thousands)

16. Employee Benefit Plans (continued)

The investment strategy for the System's defined benefit plan is both to meet the liabilities of the plans as they become due and to maximize the return on invested assets within appropriate risk tolerances. The System's pension plan asset allocations by major asset category are as follows:

Asset Category	Plan Assets at December 31 2023	2022	Target Asset Allocation
Cash and cash equivalents	**2%**	2%	0%-1%
Equity securities	**69**	70	37-81
Debt securities	**29**	28	19-63
Total	**100%**	100%	

The expected long-term rate of return on plan assets assumption is based on modeling studies completed with the assistance of the System's actuaries and investment consultant. The models consider asset class allocation, asset class returns, inflation, and bond yields for both domestic and foreign markets. They are also calibrated to take into consideration historical experience, including a random variable to reflect real-life uncertainty of the future and to project many future economic scenarios. The consequences of adopting various investment policies on the future financial health of the plans under each of the scenarios are then evaluated. These studies, along with the historical market returns that the plans have generated, support the long-term asset return used by the System.

Projected benefits to be paid in the years subsequent to December 31, 2023, are as follows:

2024	$ 140,431
2025	134,226
2026	137,405
2027	139,546
2028	141,952
Thereafter	714,829

The System's funding policy is to contribute annually not less than the minimum required by applicable laws and regulations. The System contributed $60,000 to the plans in 2023. Pension contributions are expected to be $60,000 in 2024.

(In Thousands)

16. Employee Benefit Plans (continued)

The following table presents the plan's assets and liabilities as of December 31, 2023, measured at fair value on a recurring basis within the fair value hierarchy as defined in Note 14:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	**$ 28,600**	**$ 28,600**	**$ –**	**$ –**
Government securities and obligations	**173,049**	**168,251**	**4,798**	**–**
Corporate debt securities and obligations	**325,399**	**3,180**	**322,219**	**–**
Mortgage and other asset-backed securities	**18,304**	**–**	**18,304**	**–**
Mutual funds – domestic	**29,571**	**29,571**	**–**	**–**
Mutual funds – international	**5,088**	**5,088**	**–**	**–**
Equities and exchange-traded funds	**109,625**	**109,625**	**–**	**–**
Total financial assets at fair value	**689,636**	**$ 344,315**	**$ 345,321**	**$ –**
Investments measured at NAV:				
Commingled funds	**387,362**			
Hedge funds	**375,147**			
Private capital	**298,705**			
Real estate	**21,906**			
Total investments measured at NAV	**1,083,120**			
Due to broker, net	**(2,130)**			
	$ 1,770,626			

(In Thousands)

16. Employee Benefit Plans (continued)

The following table presents the plan's assets and liabilities as of December 31, 2022, measured at fair value on a recurring basis within the fair value hierarchy as defined in Note 14:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 41,546	$ 41,546	$ –	$ –
Government securities and obligations	171,249	46,440	124,809	–
Corporate debt securities and obligations	300,030	–	300,030	–
Mortgage and other asset-backed securities	11,514	–	11,514	–
Asset-backed securities	383	–	383	–
Mutual funds – domestic	17,306	17,306	–	–
Mutual funds – international	8,507	8,507	–	–
Equities and exchange-traded funds	116,656	116,341	315	–
Derivatives: swaps/options/futures	2,495	–	2,495	–
Total financial assets at fair value	669,686	$ 230,140	$ 439,546	$ –
Investments measured at NAV:				
Commingled funds	417,326			
Hedge funds	333,018			
Private capital	308,330			
Real estate	18,453			
Total investments measured at NAV	1,077,127			
Due to broker, net	(55,392)			
	$ 1,691,421			

The types of investments estimated using NAV are discussed in Note 14. As of December 31, 2023, the unfunded commitments related to the pension plan assets are $60,768 for real estate and private capital funds.

(In Thousands)

17. Functional Expenses

The following statement of functional expenses reports the System's operating expenses, as presented on the consolidated statements of operations and changes in net assets, by each of the System's major operating functions. Operating expenses that are attributable to more than one operating function have been allocated using a basis representative of the operating expenditure, such as patient volume, full-time equivalent, or facility size.

	Year Ended December 31, 2023			
	Care Delivery	**Health Plan Coverage**	**Management and General**	**Total**
Salaries, wages, and employee benefits	**$ 4,611,497**	**$ 210,860**	**$ 751,648**	**$ 5,574,005**
Supplies and other	**3,318,859**	**326,281**	**219,505**	**3,864,645**
Health care claims expense	**–**	**4,928,867**	**–**	**4,928,867**
Depreciation and amortization	**419,740**	**28,214**	**48,153**	**496,107**
Interest	**68,363**	**1,087**	**27,414**	**96,864**
Total operating expenses	**$ 8,418,459**	**$ 5,495,309**	**$ 1,046,720**	**$ 14,960,488**

	Year Ended December 31, 2022			
	Care Delivery	**Health Plan Coverage**	**Management and General**	**Total**
Salaries, wages, and employee benefits	$ 4,463,224	$ 205,956	$ 731,717	$ 5,400,897
Supplies and other	2,747,415	286,387	330,085	3,363,887
Health care claims expense	–	4,323,534	–	4,323,534
Depreciation and amortization	396,446	34,980	49,510	480,936
Interest	45,849	521	31,699	78,069
Total operating expenses	$ 7,652,934	$ 4,851,378	$ 1,143,011	$ 13,647,323

18. Legal

The System is party to lawsuits (including alleged medical professional liability claims) incidental to the operation of the hospitals. Management believes that the ultimate disposition of such litigation will not result in liabilities that are materially more than amounts currently accrued on the consolidated balance sheets of the System.

In July 2018, William Beaumont Hospital (WBH), a subsidiary of Beaumont Health, settled a multiyear Stark Law and False Claims Act investigation by the Department of Justice related to alleged improper financial relationships between WBH and several physicians. As part of that settlement, WBH entered into a five-year Corporate Integrity Agreement (CIA) with the Office of Inspector General that requires WBH to implement a variety of policies and procedures, retain an independent review organization to oversee compliance with the CIA, and make certain required reports to both the Corewell Health East Board of Directors and to the Office of Inspector General. During 2023, WBH fulfilled the requirements of the CIA and was released from the terms of the agreement.

19. Consent Decree

In connection with the formation of Spectrum Health in 1997, the System agreed to be bound by the terms of a consent decree with a federal court. The consent decree contains a series of formal assurances to the west Michigan community with respect to the operation of the merged entity, Spectrum Health, now Corewell Health Blodgett and Corewell Health Butterworth (collectively, Corewell Health Grand Rapids). Although numerous requirements were imposed by the consent decree, the most restrictive terms expired in September 2004 (including the limitations on price increases). However, the following requirements will continue in perpetuity:

- Corewell Health Grand Rapids will target a five-year rolling average total margin that does not exceed the average of Moody's or Standard & Poor's upper quartile total margins for other health systems nationally.

- Corewell Health Grand Rapids has committed to establish a fund to provide health care programs for the underserved in the community, including services such as community-based clinics, immunization and preventive care, and health education programs. The Community Commitment fund will include a budgeted item in the amount of $6 million per year.

- The Community Commitment also opens the budget and pricing process of Corewell Health Grand Rapids to the public for both input in advance of the adoption of the budget and scrutiny of past performance. A permanent Finance Advisory Committee counsels the Finance and Audit Committee of the Corewell Health West Board of Directors during the budgeting process and prior to any budgetary recommendation to the Corewell Health Board of Directors.

- The Board of Directors of Corewell Health West will be representative of the community it serves.

As of December 31, 2023 and 2022, and for the years then ended, management believes the System is in compliance with the terms of the consent decree.

Supplemental Information

Corewell Health and Subsidiaries

Consolidating Balance Sheet

(In Thousands)

December 31, 2023

	Corewell Health Obligated Group	Corewell Health Designated Affiliates	Corewell Health Credit Group	Corewell Health Foundation West Michigan	Other	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 1,006,413	$ 797	$ 1,007,210	$ 11,299	$ 528,192	$ 1,546,701
Short-term investments	–	–	–	–	430,792	430,792
Accounts receivable:						
Patients	946,194	40,994	987,188	–	(9,782)	977,406
Other	75,581	1,276	76,857	–	359,279	436,136
Estimated third-party payor settlements	339,539	13,843	353,382	–	41,116	394,498
Pledges receivable	6,332	2	6,334	10,691	13,725	30,750
Inventories	145,978	3,613	149,591	–	15,662	165,253
Prepaid expenses and other current assets	143,147	136	143,283	–	32,440	175,723
Total current assets	2,663,184	60,661	2,723,845	21,990	1,411,424	4,157,259
Investments	4,504,417	6,499	4,510,916	222,292	1,955,291	6,688,499
Interest in recipient organization	186,367	16,492	202,859	26,505	(229,364)	–
Property and equipment – net	3,178,931	178,114	3,357,045	2,513	824,691	4,184,249
Right of use assets – net	194,425	2,443	196,868	–	17,679	214,547
Other assets:						
Due from subsidiaries	194,434	(41,678)	152,756	32	(152,788)	–
Investments in subsidiaries	105,325	–	105,325	–	(105,325)	–
Investments in joint ventures	33,051	1,556	34,607	–	31,605	66,212
Goodwill	4,072	–	4,072	–	36,352	40,424
Pledges receivable, less current portion	12,216	–	12,216	11,649	10,218	34,083
Other	466,415	796	467,211	–	57,553	524,764
	815,513	(39,326)	776,187	11,681	(122,385)	665,483
Total assets	$ 11,542,837	$ 224,883	$ 11,767,720	$ 284,981	$ 3,857,336	$ 15,910,037

Corewell Health and Subsidiaries

Consolidating Balance Sheet (continued)

(In Thousands)

December 31, 2023

	Corewell Health Obligated Group	Corewell Health Designated Affiliates	Corewell Health Credit Group	Corewell Health Foundation West Michigan	Other	Total
Liabilities and net assets						
Current liabilities:						
Accounts payable and accrued expenses	$ 621,250	$ 13,660	$ 634,910	$ 2,055	$ 409,564	$ 1,046,529
Salaries, wages, and related withholdings	623,819	–	623,819	–	59,695	683,514
Health plan claims payable	–	–	–	–	534,260	534,260
Estimated third-party payor settlements	80,333	17,508	97,841	–	52,553	150,394
Current maturities of long-term debt	137,944	2,480	140,424	–	25,347	165,771
Short-term debt	151,670	–	151,670	–	–	151,670
Current portion of lease obligations	33,687	1,256	34,943	–	4,530	39,473
Total current liabilities	1,648,703	34,904	1,683,607	2,055	1,085,949	2,771,611
Due to subsidiaries	81,610	–	81,610	36,367	(117,977)	–
Long-term debt, less current maturities	1,901,295	15,185	1,916,480	–	46,355	1,962,835
Lease obligations, less current portion	190,456	1,247	191,703	–	13,437	205,140
Professional liability accrual	219,040	–	219,040	–	77,068	296,108
Accrued pension obligation	225,155	–	225,155	–	–	225,155
Interest rate swaps	36,375	–	36,375	–	–	36,375
Other long-term liabilities	410,384	129	410,513	–	13,406	423,919
Total liabilities	4,713,018	51,465	4,764,483	38,422	1,118,238	5,921,143
Net assets:						
Controlling interest in net assets without donor restrictions	6,623,552	156,927	6,780,479	46,587	2,684,102	9,511,168
Noncontrolling interest in subsidiaries	444	–	444	–	84,681	85,125
Net assets without donor restrictions	6,623,996	156,927	6,780,923	46,587	2,768,783	9,596,293
Net assets with donor restrictions	205,823	16,491	222,314	199,972	(29,685)	392,601
Total net assets	6,829,819	173,418	7,003,237	246,559	2,739,098	9,988,894
Total liabilities and net assets	$ 11,542,837	$ 224,883	$ 11,767,720	$ 284,981	$ 3,857,336	$ 15,910,037

Corewell Health and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

(In Thousands)

Year Ended December 31, 2023

	Corewell Health Obligated Group	Corewell Health Designated Affiliates	Corewell Health Credit Group	Corewell Health Foundation West Michigan	Other	Total
Operating revenue						
Net patient service revenue	$ 7,550,004	$ 448,371	$ 7,998,375	$ –	$ 272,542	$ 8,270,917
Premium revenue	–	–	–	–	6,481,344	6,481,344
Other	269,040	6,272	275,312	–	123,637	398,949
Total operating revenue	7,819,044	454,643	8,273,687	–	6,877,523	15,151,210
Operating expenses						
Salaries, wages, and employee benefits	4,377,889	205,128	4,583,017	–	990,988	5,574,005
Supplies and other	2,890,519	202,105	3,092,624	–	772,021	3,864,645
Health care claims expense	–	–	–	–	4,928,867	4,928,867
Depreciation and amortization	374,462	17,448	391,910	–	104,197	496,107
Interest	87,424	2,223	89,647	–	7,217	96,864
Total operating expenses	7,730,294	426,904	8,157,198	–	6,803,290	14,960,488
Total operating income (loss)	88,750	27,739	116,489	–	74,233	190,722
Other nonoperating revenue (expenses)						
Investment returns, net	587,340	1,928	589,268	14,961	217,847	822,076
Gain on interest rate swaps, net	1,567	(18)	1,549	–	863	2,412
Other (expenses) revenue, net	5,437	(96)	5,341	(6,520)	(12,280)	(13,459)
Total other nonoperating revenue, net	594,344	1,814	596,158	8,441	206,430	811,029
Excess of revenue over (under) expenses	683,094	29,553	712,647	8,441	280,663	1,001,751
Loss (income) attributable to noncontrolling interest	109	–	109	–	(9,088)	(8,979)
Excess of revenue over (under) expenses	$ 683,203	$ 29,553	$ 712,756	$ 8,441	$ 271,575	$ 992,772

Corewell Health and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets (continued)

(In Thousands)

Year Ended December 31, 2023

	Corewell Health Obligated Group	Corewell Health Designated Affiliates	Corewell Health Credit Group	Corewell Health Foundation West Michigan	Other	Total Controlling	Noncontrolling	Total
Net assets without donor restrictions								
Excess of revenue over expenses	$ 683,203	$ 29,553	$ 712,756	$ 8,441	$ 271,575	$ 992,772	$ 8,979	$ 1,001,751
Contributions	–	–	–	357	37	394	–	394
Expenditures for donor sponsored programs	–	–	–	(1,121)	(1,294)	(2,415)	–	(2,415)
Net assets released for capital acquisitions	20,883	–	20,883	–	1,388	22,271	–	22,271
Pension-related changes other than net periodic pension costs	(55,714)	–	(55,714)	–	–	(55,714)	–	(55,714)
Other	2,643	(43,695)	(41,052)	2,825	36,300	(1,927)	(689)	(2,616)
Increase (decrease) in net assets without donor restrictions	651,015	(14,142)	636,873	10,502	308,006	955,381	8,290	963,671
Net assets with donor restrictions								
Contributions	16,017	–	16,017	20,287	29,574	65,878	–	65,878
Expenditures for donor sponsored programs	(17,767)	–	(17,767)	(19,685)	(19,930)	(57,382)	–	(57,382)
Investment returns	673	–	673	13,263	13,229	27,165	–	27,165
Interest in recipient organization	11,122	313	11,435	–	(11,435)	–	–	–
Net assets released for capital acquisitions	(7,876)	–	(7,876)	(4,151)	(10,244)	(22,271)	–	(22,271)
Other	(419)	–	(419)	441	1,136	1,158	–	1,158
Increase (decrease) in net assets with donor restrictions	1,750	313	2,063	10,155	2,330	14,548	–	14,548
Increase (decrease) in net assets	652,765	(13,829)	638,936	20,657	310,336	969,929	8,290	978,219
Net assets, beginning of year	6,176,610	187,247	6,363,857	225,902	2,344,081	8,933,840	76,835	9,010,675
Net assets, end of year	$ 6,829,375	$ 173,418	$ 7,002,793	$ 246,559	$ 2,654,417	$ 9,903,769	$ 85,125	$ 9,988,894

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