



# Corewell Health and Subsidiaries

## Consolidated Financial Statements

As of and for the Nine Months Ended September 30, 2023

# CHIEF FINANCIAL OFFICER'S REPORT

As of and for the Nine Months Ended September 30, 2023



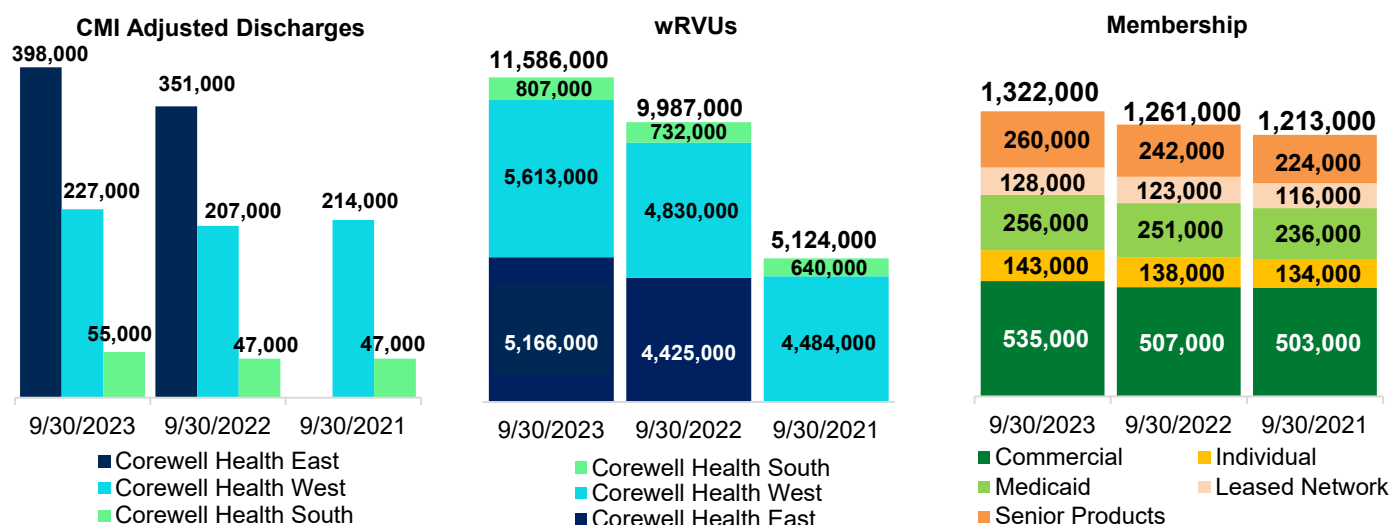
The enclosed package presents the consolidated financial statements for Corewell Health and Subsidiaries (the System). Corewell Health is a not-for-profit health system providing health care and services in 22 hospitals, 300+ outpatient locations and several post-acute facilities and coverage through Priority Health, a provider-sponsored health plan serving more than 1.3 million members. The accompanying financial statements have been summarized by the System's care delivery, coverage and other operations.

Corewell Health East 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 15.4% 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 4.8% from prior year with growth across all products.



## OPERATING MARGIN

The System's operating margin was \$133.7 million, or 1.2%, which was ahead of prior year of 0.7%. This excludes recognition of Federal and State Funding of \$18.5 million in the current year and \$100.3 million in the prior year. Including the funding, the operating margin was \$152.1 million, or 1.4%, which was behind prior year of 1.7%.

**CARE DELIVERY'S** operating loss was \$13.5 million, or -0.2%, prior to Federal and State funding of \$18.7 million, was similar to the prior year operating loss of -0.2%. Including Federal and State funding, operating margin of 0.1% was behind prior year of 1.7% which included \$100.3 million of funding. 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 \$122.7 million, or 2.3%, which was behind prior year of 2.4%. This is driven by an unfavorable 2022 Affordable Care Act Risk Adjustment settlement on the individual and small group populations.

# CHIEF FINANCIAL OFFICER'S REPORT

As of and for the Nine Months Ended September 30, 2023



## TOTAL MARGIN

The System's excess of revenue over expenses was \$541.5 million or 4.7% of total revenue. Net other revenue of \$399.2 million was comprised primarily of \$387.0 million of net investment activity (interest, dividends, realized and unrealized gains/losses), and net swap gains of \$20.2 million and offset by other non-operating expenses. The \$399.2 million net other revenue was \$1.4 billion higher than September 30, 2022, as a result of positive returns in the current investment market.

## LIQUIDITY AND CASH FLOW

At September 30, 2023, total cash and investments for the System were \$8.1 billion, an increase of \$285.0 million from December 31, 2022. The increase to cash was driven by an increase in operating cash flow margin of \$603.6 million, non-operating gains of \$373.7 million, and other net asset contributions of \$36.5 million. These were offset by spend on property and equipment of \$441.0 million, a decrease in working capital of \$214.9 million, and net payments on long term obligations of \$72.9 million.

## RATIOS

Days cash on hand for the System decreased 3.4 days to 206.4 at September 30, 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 577%. EBITDA margin was 5.4%.

## EQUITY STRUCTURE

Debt was approximately \$2.3 billion at September 30, 2023, and fund balance was approximately \$9.6 billion. The debt to capitalization ratio for the System was 20.6%, which was lower than the Moody's 2022 Aa3 median of 26.0%. Total assets for the System were approximately \$15.3 billion.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Matthew E. Cox", written in a cursive style.

Matthew E. Cox  
Chief Financial Officer

**Modified Ratio Analysis - Total System**  
September 30, 2023



	Actual 2023	Actual 2022	Medians S&P	Moody's
<b>Profitability Ratios *</b>				
Operating margin before Federal and State Funding	1.2%	0.7%	3.4%	2.5%
Operating margin after Federal and State Funding	1.4%	1.7%	3.4%	2.5%
Total margin	4.7%	(9.2)%	6.5%	5.9%
EBITDA Margin	5.4%	5.9%	n/a	7.7%
Return on assets	4.7%	(7.4)%	n/a	4.4%
<b>Liquidity Indicators</b>				
Days in patient receivables (adjusted)^	50.2	47.3	48.9	47.6
Days cash (unrestricted) on hand	206.4	209.8	327.9	277.3
Current ratio	1.7	1.8	n/a	1.7
Cash to debt %	341.7%	330.3%	n/a	252.4%
<b>Capital Structure</b>				
Total debt to capitalization	20.6%	21.5%	21.6%	26.0%
Risk based capital (PH only)	577%	545%	n/a	501% (a)
Capital expenditures to depreciation	1.2	1.2	1.5	1.3

\* Profitability ratios for prior year represent similar year to date periods as the actual ratios. The prior year ratios for liquidity and capital represent full year amounts as of 12/31.

^ 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\***  
**September 30, 2023**  
*(in thousands)*

	<b>Assets</b>			
	<b>Assets With Same-Day Liquidity</b>	<b>Assets With Next-Day Liquidity</b>	<b>Assets &gt; Next-Day Liquidity</b>	<b>Total</b>
Cash & Cash Equivalents	\$ 15,658	\$ -	\$ -	\$ 15,658
S&P Rated Money Market Funds (> Am)	354,206	7,788	-	361,993
U.S. Treasury Debt Obligations (> 1 year)	-	125,148	-	125,148
U.S. Agencies (> 1 year)	-	-	184,827	184,827
Investment Grade Debt (not included above)	-	120,416	242,691	363,107
Equities	-	130,205	552,874	683,079
Non-Investment Grade Debt	-	-	0	0
<b>Total</b>	<b>\$ 369,863</b>	<b>\$ 383,556</b>	<b>\$ 980,392</b>	<b>\$ 1,733,811</b>

	<b>Self-Liquidity Backed Debt</b>			
	<b>Same-Day Notice</b>	<b>Next-Day Notice</b>	<b>&gt; Next-Day Notice</b>	<b>Total</b>
Series 2015A Variable Rate Demand Obligation (Windows)	\$ -	\$ -	\$ 78,400	\$ 78,400

\*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, Corewell Health South, Corewell Health East and Priority Health, among others.

## Consolidated Balance Sheets

(in thousands)



	Actual September 30, 2023	Actual December 31, 2022
Cash and cash equivalents	\$ 1,831,270	\$ 1,915,422
Short term investments	420,395	402,085
Patient accounts receivable, net	1,218,594	1,087,948
Other accounts receivable, net	392,249	379,736
Pledges receivable	29,100	29,688
Inventory	200,534	197,356
Estimated third-party payor settlements	9,231	74,829
Prepaid expenses and other current assets	154,349	156,181
<b>Total current assets</b>	<b>4,255,722</b>	<b>4,243,245</b>
Investments	5,813,034	5,462,205
Donor and other restricted assets:		
Restricted investments	475,987	432,034
Pledges receivable	35,426	42,679
	<b>511,413</b>	<b>474,713</b>
Property and equipment, net	3,953,574	3,882,344
Right of use assets, net	213,145	223,686
Other assets:		
Investment in joint ventures	66,873	72,017
Goodwill, net	75,317	47,497
Other long term assets	453,411	452,858
	<b>595,601</b>	<b>572,372</b>
<b>TOTAL ASSETS</b>	<b>\$ 15,342,489</b>	<b>\$ 14,858,565</b>
Accounts payable and accrued expenses	\$ 1,148,368	\$ 985,957
Accrued salaries, wages and related withholdings	531,795	647,696
Health plan claims payable	516,999	515,321
Short term debt	78,400	78,400
Current maturities of long term debt	89,009	80,504
Lease liability, current portion	42,358	46,896
Estimated third-party payor settlements	137,735	174,602
<b>Total current liabilities</b>	<b>2,544,664</b>	<b>2,529,376</b>
Interest rate swaps	18,540	44,086
Long term debt, less current portion	2,121,471	2,196,415
Lease liability, less current portion	201,006	205,914
Professional liability accrual	323,837	316,118
Accrued pension obligation	154,813	215,193
Other long term liabilities	404,236	340,788
Net assets:		
Net assets without donor restrictions	9,112,734	8,555,787
Net assets with donor restrictions	375,245	378,053
Total System net assets	9,487,979	8,933,840
Non-controlling interest	85,943	76,835
Total net assets	9,573,922	9,010,675
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 15,342,489</b>	<b>\$ 14,858,565</b>

**Consolidated Statements of Activities**  
Nine Months Ended September 30, 2023  
*(in thousands)*



	Actual	Prior Year
<b><u>OPERATING REVENUE (net of deductions)</u></b>		
Net patient service revenue	\$ 6,030,847	5,395,838
Premium revenue	4,865,792	4,418,721
Other	270,735	191,186
<b>Total operating revenue</b>	<b>11,167,374</b>	<b>10,005,745</b>
<b><u>OPERATING EXPENSES</u></b>		
Salaries, wages and employee benefits	4,178,950	3,937,825
Supplies and other	2,787,408	2,365,540
Health care claims expense	3,615,816	3,205,524
Depreciation and amortization	380,806	369,526
Interest	70,729	54,366
<b>Total operating expenses</b>	<b>11,033,709</b>	<b>9,932,781</b>
<b>Net operating income before Federal and State Funding</b>	<b>133,665</b>	<b>72,964</b>
Federal and State Funding	18,451	100,270
<b>Net operating income</b>	<b>152,116</b>	<b>173,234</b>
<b><u>OTHER REVENUE (EXPENSE):</u></b>		
Investment income (loss), net	386,950	(1,091,206)
Gain (loss) on interest rate swaps, net	20,164	67,400
Other income (expense)	(7,933)	8,509
Contribution received in integration of subsidiary	-	3,093,138
Gain on extinguishment of debt	-	5,128
<b>Total other revenue (expense)</b>	<b>399,181</b>	<b>2,082,969</b>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENSES</b>	<b>551,297</b>	<b>2,256,203</b>
Less: Excess of revenue (over) under expenses attributable to noncontrolling interest	(9,831)	3,012
<b>EXCESS OF REVENUE OVER (UNDER) EXPENSES</b>	<b>\$ 541,466</b>	<b>\$ 2,259,215</b>

Operating margin % before Federal and State Funding	1.2%	0.7%
Operating margin % after Federal and State Funding	1.4%	1.7%
Total Margin % excluding contribution received in integration of subsidiary	4.7%	(9.2)%

Note: Corewell Health East became a wholly-owned subsidiary of the System effective February 1, 2022. Corewell Health East operating results are included in the following System results from the effective date of the transaction.

## Consolidated Statements of Activities (continued)

Nine Months Ended September 30, 2023  
(in thousands)



	Actual	Prior Year
<b>Net assets without donor restrictions:</b>		
Excess of revenue over expenses attributable to System	\$ 541,466	\$ 2,259,215
Contributions	(879)	1,536
Expenditures for donor sponsored programs	(1,938)	(2,203)
Net assets released for capital acquisitions	17,097	10,546
Other	1,201	(4,836)
Increase attributable to Corewell Health	556,947	2,264,258
Excess of revenue over expenses attributable to non-controlling interests	9,831	(3,012)
Other changes	(723)	105
Increase (decrease) attributable to non-controlling interests	9,108	(2,907)
<b>Net assets with donor restrictions:</b>		
Contribution received in integration of subsidiary	-	174,967
Contributions	37,099	33,977
Expenditures for donor sponsored programs	(39,835)	(33,070)
Investment returns	18,114	(27,700)
Net assets released for capital acquisitions	(17,097)	(10,546)
Other	(1,089)	2,919
Increase (decrease) in net assets with donor restrictions	(2,808)	140,547
Increase in net assets	563,247	2,401,898
Net assets, beginning of year	9,010,675	6,437,885
Net assets, end of year	<u>\$ 9,573,922</u>	<u>\$ 8,839,783</u>

Note: Corewell Health East became a wholly-owned subsidiary of the System effective February 1, 2022. Corewell Health East operating results are included in the following System results from the effective date of the transaction.



## Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2023

(in thousands)



	Actual	Prior Year
<b><u>OPERATING ACTIVITIES AND OTHER REVENUE</u></b>		
Change in net assets	\$ 563,247	\$ 2,401,898
Contributions and other net asset activity	(36,488)	(33,700)
Contribution received in integration of subsidiary	-	(3,268,105)
Unrealized (gain)/loss in market value of interest rate swaps	(25,546)	(75,768)
Depreciation and amortization	380,806	369,526
Changes in operating assets and liabilities:		
Trading securities		
Investments	(418,291)	1,098,402
Decrease (increase) in net accounts receivable, inventories, prepaid expenses, and other operating assets	(65,822)	74,063
Increase (decrease) in accounts payable, accrued expenses, accrued salaries and related withholdings, health plan claims payable, third-party settlement liabilities, and other operating liabilities	(16,727)	(318,062)
Other	1,802	1,381
<b>Net cash provided by operating activities and other revenue</b>	<b>382,981</b>	<b>249,635</b>
<b><u>INVESTING ACTIVITIES</u></b>		
Additions to property and equipment, net	(441,019)	(392,054)
Integration of subsidiary	-	1,175,792
Other	8,955	(16,613)
<b>Net cash provided by (used in) investing activities</b>	<b>(432,064)</b>	<b>767,125</b>
<b><u>FINANCING ACTIVITIES</u></b>		
Contributions and other net asset activity	36,488	33,700
Proceeds from issuance of long term debt	8,600	1,041,014
Payment of long term debt	(75,932)	(1,087,398)
Payment of financing lease obligation	(5,614)	(5,323)
<b>Net cash provided used in financing activities</b>	<b>(36,458)</b>	<b>(18,007)</b>
<b>Increase (decrease) in cash, cash equivalents, and restricted cash</b>	<b>(85,541)</b>	<b>998,753</b>
<b>Cash, cash equivalents, and restricted cash beginning of year</b>	<b>1,930,223</b>	<b>1,093,957</b>
<b>Cash, cash equivalents, and restricted cash end of period</b>	<b>\$ 1,844,682</b>	<b>\$ 2,092,710</b>
<b><u>NON CASH ACTIVITIES</u></b>		
Right of use assets obtained in exchange for lease liabilities, net	\$ 35,000	\$ 68,764

Note: Corewell Health East became a wholly-owned subsidiary of the System effective February 1, 2022. Corewell Health East operating results are included in the following System results from the effective date of the transaction.