KPMG

PROVIDENCE ST. JOSEPH HEALTH

Combined Financial Statements

December 31, 2023 and 2022

(With Independent Auditors’ Report Thereon)

KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

Independent Auditors' Report

The Board of Directors
Providence St. Joseph Health:

Opinion

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

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Health System as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Health 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 Combined Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Combined Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined 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 combined 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 Health 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 combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Obligated Group Combining Balance Sheets and Statements of Operations Information included on pages 36 and 37 is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

Seattle, Washington
March 6, 2024

PROVIDENCE ST. JOSEPH HEALTH

Combined Balance Sheets

December 31, 2023 and 2022

(In millions of dollars)

Assets		2023	2022
Current assets:			
Cash and cash equivalents	$	1,468	1,063
Accounts receivable		3,045	2,841
Supplies inventory		373	359
Other current assets		2,430	1,752
Current portion of assets whose use is limited		701	656
Total current assets		8,017	6,671
Assets whose use is limited		7,022	8,512
Property, plant, and equipment, net		9,187	10,217
Operating lease right-of-use assets		1,172	1,265
Other assets		2,906	2,243
Total assets	$	28,304	28,908
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	160	166
Master trust debt classified as short-term		138	452
Accounts payable		1,438	1,915
Accrued compensation		1,527	1,496
Current portion of operating lease liabilities		204	191
Other current liabilities		2,393	2,154
Total current liabilities		5,860	6,374
Long-term debt, net of current portion		8,064	7,606
Pension benefit obligation		660	678
Long-term operating lease liabilities, net of current portion		1,107	1,251
Other liabilities		1,624	1,408
Total liabilities		17,315	17,317
Net assets:			
Controlling interests		9,340	9,818
Noncontrolling interests		145	386
Net assets without donor restrictions		9,485	10,204
Net assets with donor restrictions		1,504	1,387
Total net assets		10,989	11,591
Total liabilities and net assets	$	28,304	28,908

See accompanying notes to combined financial statements.

PROVIDENCE ST. JOSEPH HEALTH

Combined Statements of Operations

Years ended December 31, 2023 and 2022

(In millions of dollars)

		2023	2022
Operating revenues:			
Net patient service revenues	$	21,876	20,100
Premium revenues		2,744	2,507
Capitation revenues		1,947	1,897
Other revenues		2,178	1,930
Total operating revenues		28,745	26,434
Operating expenses:			
Salaries and benefits		15,238	14,332
Supplies		4,521	4,129
Purchased healthcare services		2,462	2,226
Interest, depreciation, and amortization		1,460	1,282
Purchased services, professional fees, and other		6,235	5,917
Total operating expenses		29,916	27,886
Deficit of revenue over expenses from operations before restructuring costs and other		(1,171)	(1,452)
Restructuring costs and other		—	247
Deficit of revenue over expenses from operations		(1,171)	(1,699)
Net nonoperating gains (losses):			
Investment income (loss), net		652	(1,027)
Loss from disaffiliation		—	(3,408)
Other		(77)	12
Total net nonoperating gains (losses)		575	(4,423)
Deficit of revenues over expenses	$	(596)	(6,122)

See accompanying notes to combined financial statements.

PROVIDENCE ST. JOSEPH HEALTH

Combined Statements of Changes in Net Assets

Years ended December 31, 2023 and 2022

(In millions of dollars)

		Without donor restrictions			
		Controlling interests	Noncontrolling interests	With donor restrictions	Total net assets
Balance, December 31, 2021	$	15,507	404	1,761	17,672
Deficit of revenues over expenses		(6,033)	(89)	—	(6,122)
Restricted assets related to disaffiliation		—	—	(422)	(422)
Contributions, grants, and other		111	71	127	309
Net assets released from restriction		—	—	(79)	(79)
Pension related changes		233	—	—	233
Change in net assets		(5,689)	(18)	(374)	(6,081)
Balance, December 31, 2022		9,818	386	1,387	11,591
(Deficit) excess of revenues over expenses		(619)	23	—	(596)
Contributions, grants, and other		112	(264)	224	72
Net assets released from restriction		—	—	(107)	(107)
Pension related changes		29	—	—	29
Change in net assets		(478)	(241)	117	(602)
Balance, December 31, 2023	$	9,340	145	1,504	10,989

See accompanying notes to combined financial statements.

PROVIDENCE ST. JOSEPH HEALTH

Combined Statements of Cash Flows

Years ended December 31, 2023 and 2022

(In millions of dollars)

		2023	2022
Cash flows from operating activities:			
Decrease in net assets	$	(602)	(6,081)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:			
Depreciation and amortization		1,113	1,017
(Gain) loss on disaffiliation activities		(103)	3,830
Change in non-controlling interest due to joint venture activities		264	—
Restricted contributions and investment income received		(224)	(127)
Net realized and unrealized gains on investments		(462)	1,165
Changes in certain current assets and liabilities		(1,027)	(316)
Change in certain long-term assets and liabilities		(75)	(830)
Net cash used in operating activities		(1,116)	(1,342)
Cash flows from investing activities:			
Property, plant, and equipment additions		(527)	(767)
Purchases of alternative investments, commingled funds, and trading securities		(9,499)	(10,356)
Proceeds from sales of alternative investments, commingled funds, and trading securities		11,351	11,181
Net cash received (paid) through affiliation and divestiture activities		110	(315)
Other investing activities		(87)	(22)
Net cash provided by (used in) investing activities		1,348	(279)
Cash flows from financing activities:			
Proceeds from restricted contributions and restricted income		224	127
Debt borrowings		1,342	2,203
Debt payments		(1,336)	(777)
Other financing activities		(57)	(12)
Net cash provided by financing activities		173	1,541
Increase (decrease) in cash and cash equivalents		405	(80)
Cash and cash equivalents, beginning of year		1,063	1,143
Cash and cash equivalents, end of year	$	1,468	1,063
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of amounts capitalized	$	337	271

See accompanying notes to combined financial statements.

(1) Basis of Presentation and Significant Accounting Policies

(a) Reporting Entity

Providence St. Joseph Health (the Health System), a Washington nonprofit corporation, is the sole corporate member of Providence Health & Services (PHS) and the St. Joseph Health System (SJHS). PHS, a Washington nonprofit corporation, is a Catholic healthcare system sponsored by the public juridic person, Providence Ministries. SJHS, a California nonprofit public benefit corporation, is a Catholic healthcare system sponsored by the public juridic person, St. Joseph Health Ministry.

The Health System seeks to improve the health of the communities it serves, especially the poor and vulnerable. The Health System operations include 51 hospitals and a comprehensive range of services provided across Alaska, California, Montana, New Mexico, Oregon, Texas, and Washington. The Health System also provides population health management through various affiliated licensed insurers and other risk-bearing entities.

The Health System has been recognized as exempt from federal income taxes, except on unrelated business income, under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3) and further described as a public charitable organization under Section 509(a)(3). PHS, SJHS, and substantially all of the corporations within the Health System have been granted exemptions from federal income tax under Section 501(a) of the Internal Revenue Code as charitable organizations described in Section 501(c)(3).

(b) Basis of Presentation

The accompanying combined financial statements of the Health System were prepared in accordance with U.S. generally accepted accounting principles and include the assets, liabilities, revenues, and expenses of all wholly owned affiliates, majority-owned affiliates over which the Health System exercises control, and, when applicable, entities in which the Health System has a controlling financial interest. Intercompany balances and transactions have been eliminated in combination.

(c) Performance Indicator

The performance indicator is the deficit of revenues over expenses. Changes in net assets without restrictions that are excluded from the performance indicator include net assets released from restriction for the purchase of property, plant, and equipment, certain changes in funded status of pension and other postretirement benefit plans, restricted contributions from affiliations (disaffiliations), net changes in noncontrolling interests in combined joint ventures, and certain other activities.

(d) Operating and Nonoperating Activities

The Health System's primary mission is to meet the healthcare needs in its market areas through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, physician services, long-term care, population health management, and other healthcare and health insurance services. Activities directly associated with the furtherance of this mission are considered to be operating activities. Other activities that result in gains or losses peripheral to the Health System's primary mission are considered to be nonoperating. Nonoperating activities include investment earnings, gains or losses from debt extinguishment, loss from disaffiliation, certain pension related costs, gains or losses on interest rate swaps, and certain other activities.

(e) Use of Estimates and Assumptions

The preparation of the combined financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but not limited to: (1) patient revenue recognition; (2) fair value of acquired assets and assumed liabilities in business combinations; (3) fair value of investments; (4) reserves for self-insured healthcare plans; and (5) reserves for professional, workers' compensation, and general insurance liability risks.

The accounting estimates used in the preparation of the combined financial statements will change as new events occur, additional information is obtained, or the operating environment changes. Assumptions and the related estimates are updated on an ongoing basis, and external experts may be employed to assist in the evaluation, as considered necessary. Actual results could materially differ from those estimates.

(f) Restructuring and Other

Restructuring costs were recorded during the year ended December 31, 2022. The amounts were comprised primarily of severance, contract termination, asset impairment, and other items related to restructuring initiatives.

(g) Disaffiliation

In January 2022, Hoag and the Health System reached an agreement to amicably end their affiliation. As part of the disaffiliation, $272 of the series 2013A Bonds and $152 of the 2019C bonds were defeased. In addition, the line of credit was repaid by $91 million. The Health System recorded the nonoperating loss on the disaffiliation of $3,408 in the first quarter of 2022 reflecting the impact of removing Hoag's assets, liabilities, and net assets from the Health System's combined balance sheet. The Health System retains its ownership interest in two joint ventures that are majority owned by Hoag: Hoag Orthopedic Institute and Hoag Orthopedic Institute ASC Holdings. Hoag and the Health System collaborated to implement the Electronic Health Record platform at Hoag.

(In millions of dollars)

As of December 31, 2021, Hoag represented the following amounts in the combined balance sheets:

Cash and cash equivalents	$	307
Account receivable		243
Asset whose use is limited		2,648
Property, plan and equipment, net		1,268
Other current and long-term assets		468
Total assets	$	4,934
Account payable	$	83
Accrued compensation		113
Current and long-term debt		548
Other current and long-term liabilities		263
Total liabilities	$	1,007

(h) Joint Venture

In October 2023, the Health System and Cedars-Sinai Medical Center jointly opened a new patient-care tower, Providence Cedars-Sinai Tarzana Medical Center (“PCSTMC”), owned and operated by both organizations through joint venture. As a result of the joint venture, the Health System’s property, plant, and equipment decreased by $690, noncontrolling net assets decreased by $264, and controlling assets decreased by $412. Furthermore, the Health System’s other assets increased by $527 as a result of the new investment in joint venture.

(i) Assets Held for Sale

The Health System completed the sale of its Acclara and Advata subsidiaries to R1 RCM (“R1”) effective January 17, 2024 for cash of $575 and a warrant to purchase up to 12.2 million shares of R1 stock at an exercise price of $10.52, subject to a three-year lock-up period. The Health System expects to record a gain of approximately $350 to $360, subject to final closing adjustments.

The subsidiaries were deemed to be held for sale at December 31, 2023. The total carrying amount of the assets and liabilities of the subsidiaries as of December 31, 2023 are as follows:

Current assets	$	139
Long-term assets		255
Total assets	$	394
Current liabilities	$	76
Long-term liabilities		62
Total liabilities	$	138

(j) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original or remaining maturity of three months or less when acquired. The Health System maintains cash balances above Federal Deposit Insurance Corporation limits.

(k) Supplies Inventory

Supplies inventory is stated at the lower of cost (first-in, first-out) or market.

(l) Investments Including Assets Whose Use Is Limited

The Health System has classified all of its investments as trading securities. These investments are reported on the combined balance sheets at fair value on a trade-date basis.

Assets whose use is limited primarily include assets held by trustees under indenture agreements and designated assets set aside by management of the Health System for future capital improvements and other purposes, over which management retains control. Assets whose use is limited also include funds held for self-insurance purposes, health plan medical claims payments and other statutory reserve requirements, as well as, assets held by related foundations. Temporary cash held by fund managers is considered investing activity for cash flow purposes.

(m) Liquidity

Cash and cash equivalents and accounts receivable are the primary liquid resources used by the Health System to meet expected expenditure needs within the next year. The Health System has credit facility programs, as described in Note 8, available to meet unanticipated liquidity needs. Although intended to satisfy long-term obligations, management estimates that approximately 45% and 60% of noncurrent investments, as stated at December 31, 2023 and 2022, respectively, could be utilized within the next year, if needed.

(n) Derivative Instruments

The Health System allows certain investment managers to use derivative financial instruments (futures and forward currency contracts) to manage market risk related to the Health System’s equity, fixed-income, and commodities holdings. Also, the Health System uses derivative financial instruments (interest rate swaps) to manage its interest rate exposure and overall cost of borrowing. The interest rate swap agreements do not meet the criteria for hedge accounting and all changes in the valuation are recognized as a component of net nonoperating gains (losses) in the accompanying combined statements of operations.

(o) Net Assets

Net assets without donor restrictions are those that are not subject to donor-imposed stipulations. Amounts related to the Health System’s noncontrolling interests in certain joint ventures are included in net assets without donor restrictions.

Net assets with donor restrictions are those whose use by the Health System has been limited by donors to a specific time period, in perpetuity, and/or purpose.

(In millions of dollars)

Net assets with donor restrictions are available for the following purposes as of December 31:

		2023	2022
Program support	$	1,274	1,104
Capital acquisition		133	201
Low-income housing and other		97	82
Total net assets with donor restrictions	$	1,504	1,387

(p) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Health System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the promise to give is no longer conditional. The gifts are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When the terms of a donor restriction are met, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as other operating revenues in the combined statements of operations or as net assets released from restriction in the combined statements of changes in net assets.

(q) Charity Care and Community Benefit

The Health System provides community benefit activities that address significant health priorities within its geographic service areas. These activities include Medicaid and Medicare shortfalls, community health services, education and research, and free and low-cost care (charity care).

Charity care is reported at estimated cost and is determined by multiplying the charges incurred at established rates for services rendered by the Health System's cost-to-charge ratio. The cost of charity care provided by the Health System for the years ended December 31, 2023 and 2022 was $240 and $289, respectively.

(r) Subsequent Events

The Health System has performed an evaluation of subsequent events through March 6, 2024, the date the accompanying combined financial statements were issued. See Note 1(i) for a subsequent event related to sales of subsidiaries.

(s) New Accounting Pronouncements

In June 2016, FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses; Measurement of Credit Losses on Financial Instruments*, which changed the ACL accounting model by requiring immediate recognition of management's estimates of current expected credit losses on financial instruments that are not accounted for at fair value. The Health System adopted ASU 2016-13 effective January 1, 2023, and the provisions of the standard did not have a material impact on the combined financial statements.

(t) Reclassifications

Certain reclassifications, which have no impact on net assets or changes in net assets, have been made to prior year amounts to conform to the current year presentation.

(2) COVID-19 Pandemic and CARES Act Funding

The Health System received relief in the form of grants and advance payments from the Coronavirus Aid Relief and Economic Security ("CARES") Act. The Health System received cumulative payments of approximately $1,391 in total grants from the CARES Act, including $0 and $91 received during the years ended December 31, 2023 and 2022, respectively. Substantially all of these amounts have been recognized as other operating revenue, including $0 and $120 recognized during the years ended December 31, 2023 and 2022, respectively.

(3) Revenue Recognition

(a) Net Patient Service Revenues

The Health System has agreements with governmental and other third-party payors that provide for payments to the Health System at amounts different from established charges. Payment arrangements for major third-party payors may be based on prospectively determined rates, reimbursed cost, discounted charges, per diem payments, or other methods.

Net patient service revenues are recognized at the time services are provided to patients. Revenue is recorded in the amount that the Health System expects to collect, which may include variable components. Variable consideration is included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Adjustments from finalization of prior years' cost reports and other third-party settlement estimates resulted in an increase in net patient service revenues of $282 and $18 for the years ended December 31, 2023 and 2022, respectively. Included in the increase in 2023 revenue was $200 that was due to the 340b settlement with Medicare.

Various states in which the Health System operates have instituted a provider tax on certain patient service revenues at qualifying hospitals to increase funding from other sources and obtain additional federal funds to support increased payments to providers of Medicaid services. The taxes are included in purchased services, professional fees, and other expenses in the accompanying combined statements of operations and were $635 and $560 for the years ended December 31, 2023 and 2022, respectively. These programs resulted in enhanced payments from these states in the way of lump-sum payments and per claim increases. These enhanced payments are included in net patient service revenues in the accompanying combined statements of operations and were $889 and $799 for the years ended December 31, 2023 and 2022, respectively.

(b) Premium and Capitation Revenues

Premium and capitation revenues are received on a prepaid basis and are recognized as revenue ratably over the period for which the enrolled member is entitled to healthcare services. The timing of the Health System's performance may differ from the timing of the payment received, which may result in the recognition of a contract asset or a contract liability. The balance of contract liabilities was $28 and $26 as of December 31, 2023 and 2022, respectively, and is included in other current liabilities in the combined balance sheets. The Health System has no material contract assets.

(In millions of dollars)

(c) Disaggregation of Revenue

The Health System earns the majority of its revenues from contracts with customers. Revenues and adjustments not related to contracts with customers are included in other revenue.

Other revenues are comprised primarily of point of sale for retail pharmacy, cafeteria, and grant revenue and are recognized in accordance with contract terms.

Operating revenues from contracts with customers by state are as follows for the years ended December 31:

		2023	2022
Alaska	$	1,026	946
Washington		8,167	7,604
Montana		532	488
Oregon		6,260	5,660
California		9,274	8,617
Texas/New Mexico		1,308	1,189
Total revenues from contracts with customers		26,567	24,504
Other revenues		2,178	1,930
Total operating revenues	$	28,745	26,434

Operating revenues from contracts with customers by line of business are as follows for the years ended December 31:

		2023	2022
Hospitals	$	18,008	16,633
Health plans and accountable care		3,035	2,827
Physician and outpatient activities		3,340	3,164
Long-term care, home care, and hospice		1,522	1,380
Other		662	500
Total revenues from contracts with customers		26,567	24,504
Other revenues		2,178	1,930
Total operating revenues	$	28,745	26,434

(Continued)

(In millions of dollars)

Operating revenues from contracts with customers by payor are as follows for the years ended December 31:

		2023	2022
Commercial	$	12,102	11,134
Medicare		9,794	8,998
Medicaid		3,897	3,590
Self-pay and other		774	782
Total revenues from contracts with customers		26,567	24,504
Other revenues		2,178	1,930
Total operating revenues	$	28,745	26,434

(4) Fair Value Measurements

ASC Topic 820, *Fair Value Measurements*, requires a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs include quoted prices (unadjusted) in active markets for identical assets or liabilities that the Health System has the ability to access at the measurement date.
- Level 2 inputs include inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

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

(a) Assets Whose Use Is Limited

The fair value of assets whose use is limited, other than those investments measured using net asset value per share (NAV) as a practical expedient for fair value, is estimated using quoted market prices or other observable inputs when quoted market prices are unavailable.

(In millions of dollars)

The composition of assets whose use is limited is set forth in the following tables:

	December 31, 2023	Fair value measurements at reporting date using Level 1	Level 2	Level 3
Management-designated cash and investments:				
Cash and cash equivalents	$ 852	852	—	—
Equity securities:				
Domestic	1,010	1,010	—	—
Foreign	378	378	—	—
Domestic debt securities:				
State and federal government	1,323	631	692	—
Corporate	508	1	507	—
Other	574	259	315	—
Foreign debt securities	221	2	219	—
Other	59	56	3	—
Investments measured using NAV	1,984			
Total management-designated cash and investments	6,909			
Gift annuities, trusts, and other	421	59	10	352
Funds held by trustee:				
Cash and cash equivalents	40	40	—	—
Domestic debt securities	320	174	146	—
Foreign debt securities	33	—	33	—
Total funds held by trustee	393			
Total assets whose use is limited	$ 7,723			

(In millions of dollars)

	December 31, 2022	Fair value measurements at reporting date using Level 1	Level 2	Level 3
Management-designated cash and investments:				
Cash and cash equivalents	$ 363	363	—	—
Equity securities:				
Domestic	1,422	1,422	—	—
Foreign	612	612	—	—
Domestic debt securities:				
State and federal government	1,813	1,269	544	—
Corporate	773	6	767	—
Other	651	197	454	—
Foreign debt securities	338	—	338	—
Other	39	25	14	
Investments measured using NAV	2,408			
Total management-designated cash and investments	8,419			
Gift annuities, trusts, and other	389	61	17	311
Funds held by trustee:				
Cash and cash equivalents	29	29	—	—
Domestic debt securities	305	180	125	—
Foreign debt securities	26	—	26	—
Total funds held by trustee	360			
Total assets whose use is limited	$ 9,168			

The Health System participates in various funds that are not actively marketed on an open exchange. These investments consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Due to the nature of these funds, the NAV per share, or its equivalent, reported by each fund manager is used as a practical expedient to estimate the fair value of the Health System's interest therein. Management believes that the carrying amounts of these financial instruments, provided by the fund managers, are reasonable estimates of fair value.

(In millions of dollars)

The following table presents information, including unfunded commitments for investments where the NAV was used to estimate the value of the investments as of December 31:

	Fair value 2023	Fair value 2022	Unfunded commitments	Redemption frequency	Redemption notice period
Hedge funds:					
Long/short equity	$ 150	190	2	Monthly, quarterly, semi-annually, or annually	30–120 days
Credit	130	97	21	Monthly or quarterly	45–150 days
Relative value	119	218	—	Quarterly	45–90 days
Global macro	157	241	—	Monthly or quarterly	5–90 days
Fund of hedge funds	8	20	—	Quarterly	90 days
Private equity	1,026	925	342	Not applicable	Not applicable
Private real estate	251	262	152	Not applicable	Not applicable
Real assets	46	26	43	Not applicable	Not applicable
Commingled	97	429	—	Weekly, monthly, quarterly, semi-annually, or annually	3–30 days
Total	$ 1,984	2,408	560		

The following is a summary of the nature of these investments and their associated risks:

Hedge funds are portfolios of investments that use advanced investment strategies, such as long/short equity, credit, relative value, global macro, and fund of hedge funds positions in both domestic and international markets, with the goal of diversifying portfolio risk and generating return. The Health System's investments in hedge funds include certain funds with provisions that limit the Health System's ability to access assets invested. These provisions include lock-up terms that range up to three years from the subscription date or are continuous and determined as a percent of total assets invested. The Health System is in various stages of the lock-up periods dependent on hedge fund and period of initial investments.

Private equity and private real estate funds make opportunistic investments that are primarily private in nature. These investments cannot be redeemed by the Health System; rather the Health System has committed an amount to invest in the private funds over the respective commitment periods. After the commitment period has ended, the nature of the investments in this category is that the distributions are received through the liquidation of the underlying assets.

Real asset strategies invest in securities backed by tangible real assets, with the objective of achieving attractive diversified total returns over the long term, while maximizing the potential for real returns in periods of rising inflation. Real asset investments should provide a return in excess of inflation, and their performance should be sensitive to changes in inflation or expectations for future levels of inflation. The real asset category is made up of many different underlying sectors inclusive of agriculture, commodities, gold, infrastructure, private energy, MLPs (Master Limited Partnerships), real estate, REITs (Real Estate Investment Trusts), timberland, and TIPS (Treasury Inflation Protected

(In millions of dollars)

Securities). Each of these sectors tends to have a high degree of sensitivity to inflation and be less correlated with traditional equities and fixed income.

Commingled describes a type of fund structure. Commingled funds consist of assets from several accounts that are blended together. Investors in commingled fund investments benefit from economies of scale, which allow for lower trading costs per dollar of investment.

(b) Unsettled Transactions

Investment sales and purchases initiated prior to and settled subsequent to the combined balance sheet date result in amounts due from and to brokers. As of December 31, 2023, the Health System recorded a receivable of $61 for investments sold but not settled and a payable of $45 for investments purchased but not settled in other current assets and other current liabilities, respectively, in the accompanying combined balance sheets. As of December 31, 2022, the Health System recorded a receivable of $19 for investments sold but not settled and a payable of $59 for investments purchased but not settled in other current assets and other current liabilities, respectively, in the accompanying combined balance sheets.

(c) Derivative Instruments

The investment managers have executed master netting arrangements with the counterparties of the futures and forward currency purchase and sale contracts whereby the financial instruments held by the same counterparty are legally offset as the instruments are settled. The following table presents gross investment derivative assets and liabilities reported on a net basis at fair value included in assets whose use is limited in the combined balance sheets as of December 31:

		2023	2022
Derivative assets:			
Futures contracts	$	1,057	868
Foreign currency forwards and other contracts		205	182
Total derivative assets	$	1,262	1,050
Derivative liabilities:			
Futures contracts	$	(1,057)	(868)
Foreign currency forwards and other contracts		(205)	(182)
Total derivative liabilities	$	(1,262)	(1,050)

The Health System also uses short-term forward purchase and sale commitments of mortgage-backed assets. The total notional derivative amount of mortgage contracts purchased and sold was $202 and $74, respectively, as of December 31, 2023. The total notional derivative amount of mortgage contracts purchased and sold was $247 and $33, respectively, as of December 31, 2022. These meet the definition of a derivative instrument in cases where physical delivery of the assets is not taken at the earliest available delivery date.

(In millions of dollars)

(d) Investment Income (Loss), Net

		2023	2022
Interest and dividend income	$	190	138
Net realized gains on sale of trading securities		134	39
Change in net unrealized gains (losses) on trading securities		328	(1,204)
Investment income (loss), net	$	652	(1,027)

(e) Assets Measured Using Significant Unobservable Inputs

Level 3 assets include charitable remainder trusts, real property, and equity investments in healthcare technology start-ups through the Health System's innovation venture capital fund. Fair values of real property were estimated using a market approach. Fair values of charitable remainder trusts were estimated using an income approach. Fair value of equity investments in healthcare technology start-ups were estimated using a combination of income and market approach.

(5) Property, Plant, and Equipment, Net

Property, plant, and equipment are stated at cost. Improvements and replacements of plant and equipment are capitalized, and maintenance and repairs are expensed. The provision for depreciation is determined by the straight-line method, which allocates the cost of tangible property equally over its estimated useful life or lease term. Impairment of property, plant, and equipment is assessed when there is evidence that events or changes in circumstances have made recovery of the net carrying value of assets unlikely.

Interest capitalized on amounts expended during construction is a component of the cost of additions to be allocated to future periods through the provision for depreciation. Capitalization of interest ceases when the addition is substantially complete and ready for its intended use.

(In millions of dollars)

Property, plant, and equipment and the total accumulated depreciation are as follows as of December 31:

	Approximate useful life (years)		2023	2022
Land	—	$	1,114	1,183
Buildings and improvements	5–60		10,844	10,655
Equipment:				
Fixed	5–25		1,382	1,370
Major movable and minor	3–20		7,921	7,128
Construction in progress	—		1,208	2,205
			22,469	22,541
Less accumulated depreciation			(13,282)	(12,324)
Property, plant, and equipment, net		$	9,187	10,217

Construction in progress primarily represents renewal and replacement of various facilities in the Health System's operating divisions, as well as costs capitalized for software development.

(6) Other Assets

Other assets are summarized as follows as of December 31:

		2023	2022
Investment in nonconsolidated joint ventures	$	926	418
Goodwill, net of accumulated amortization		340	341
Intangible assets, net of accumulated amortization		177	246
Beneficial interest in noncontrolled foundations		329	322
Other		1,134	916
Total other assets	$	2,906	2,243

Goodwill is recorded as the excess of cost over fair value of the acquired net assets. Goodwill is amortized over a ten-year period. Goodwill is tested for impairment when a triggering event occurs that indicates that it is more likely than not that the fair value of the reporting unit is below its carrying value. The Health System recorded no goodwill impairment for the years ended December 31, 2023 and 2022.

Indefinite-lived intangible assets are recorded at fair value using various methods depending on the nature of the intangible asset and are tested annually for impairment. Definite-lived intangible assets are amortized using the straight-line method over the estimated useful lives of the assets.

(In millions of dollars)

(7) Leases

The Health System enters into operating and finance leases primarily for buildings and equipment. For leases with terms greater than 12 months, the Health System records the related right-of-use (ROU) asset and liability at the present value of the lease payments over the contract term using the Health System's incremental borrowing rate. Building lease agreements generally require the Health System to pay maintenance, repairs, and property taxes, which are variable based on actual costs incurred during each applicable period. Such costs are not included in the determination of the ROU asset or lease liability. Variable lease costs also include escalating rent payments that are not fixed at lease commencement but are based on an index that is determined in future periods over the lease term based on changes in the Consumer Price Index or other measure of cost inflation. Most leases include one or more options to renew the lease at the initial term, with renewal terms that generally extend the lease at the then market rate of rental payment. Certain leases also include an option to buy the underlying asset at or a short time prior to the termination of the lease. All such options are at the Health System's discretion and are evaluated at the lease commencement, with only those that are reasonably certain of exercise included in determining the appropriate lease term.

The components of lease cost are as follows for the years ended December 31:

		2023	2022
Operating lease cost:			
Fixed lease expense	$	249	250
Short-term lease expense		3	18
Variable lease expense		179	152
Total operating lease cost	$	431	420
Finance lease cost:			
Amortization of ROU assets	$	102	57
Interest on finance lease liabilities		12	23
Total finance lease cost	$	114	80

(In millions of dollars)

Supplemental cash flow and other information related to leases as of and for the years ended December 31 are as follows:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 249	315
Operating cash flows from finance leases	12	23
Financing cash flows from finance leases	73	44
Additions to ROU assets obtained from operating leases	295	429
Additions to ROU assets obtained from finance leases	196	285
Weighted-average remaining lease term (in years):		
Operating leases	9	9
Finance leases	12	14
Weighted-average discount rate:		
Operating leases	3.3 %	3.2 %
Finance leases	3.0	2.9

Commitments related to noncancellable operating and finance leases for each of the next five years and thereafter as of December 31, 2023 are as follows:

	Operating	Finance
2024	$ 243	113
2025	215	95
2026	196	74
2027	164	60
2028	128	55
Thereafter	535	499
	1,481	896
Less imputed interest	(170)	(206)
Total lease liabilities	1,311	690
Less current portion	(204)	(88)
Long-term portion	$ 1,107	602

(In millions of dollars)

Lease assets and lease liabilities as of December 31 were as follows:

	Classification		2023	2022
Assets:				
Operating	Operating leases ROU assets	$	1,172	1,265
Finance	Property, plant, and equipment, net		635	655
Liabilities:				
Current:				
Operating	Current portion of operating lease liabilities		204	191
Finance	Current portion of long-term debt		88	58
Long-term:				
Operating	Long-term operating lease liabilities, net of current portion		1,107	1,251
Finance	Long-term debt, net of current portion		602	579

(8) Debt

(a) Short-Term and Long-Term Debt

The Health System has borrowed master trust debt issued through the following:

- California Health Facilities Financing Authority (CHFFA)
- Alaska Industrial Development and Export Authority (AIDEA)
- Washington Health Care Facilities Authority (WHCFA)
- Montana Facility Finance Authority (MFFA)
- Lubbock Health Facilities Development Corp (LHFDC)
- Oregon Facilities Authority (OFA)
- Wisconsin Public Finance Authority (WPFA)

(In millions of dollars)

Short-term and long-term unpaid principal consists of the following at December 31:

	Maturing through	Coupon rates	Unpaid principal 2023	Unpaid principal 2022
Master trust debt:				
Fixed rate:				
Series 2005, Direct Obligation Notes	2030	5.30–5.39%	$ —	28
Series 2009C, CHFFA Revenue Bonds	2034	5.00	35	62
Series 2009D, CHFFA Revenue Bonds	2034	1.70	36	36
Series 2011C, OFA Revenue Bonds	2026	3.50–5.00	2	3
Series 2012A, WHCFA Revenue Bonds	2042	3.00–5.00	416	430
Series 2013A, OFA Revenue Bonds	2024	5.00	9	17
Series 2013A, CHFFA Revenue Bonds	2037	4.00–5.00	47	49
Series 2013D, Direct Obligation Notes	2023	4.38	—	252
Series 2014A, CHFFA Revenue Bonds	2038	4.00–5.00	146	158
Series 2014B, CHFFA Revenue Bonds	2044	4.25–5.00	119	119
Series 2014C, WHCFA Revenue Bonds	2044	4.00–5.00	80	80
Series 2014D, WHCFA Revenue Bonds	2041	5.00	176	176
Series 2015A, WHCFA Revenue Bonds	2045	4.00	78	78
Series 2015C, OFA Revenue Bonds	2045	4.00–5.00	71	71
Series 2016A, CHFFA Revenue Bonds	2047	2.50–5.00	437	446
Series 2016B, CHFFA Revenue Bonds	2036	1.25–4.00	190	190
Series 2016H, Direct Obligation Bonds	2036	2.75	300	300
Series 2016I, Direct Obligation Bonds	2047	3.74	400	400
Series 2018A, Direct Obligation Bonds	2048	4.00	350	350
Series 2018B, WHCFA Revenue Bonds	2033	5.00	142	142
Series 2019A, Direct Obligation Bonds	2029	2.53	650	650
Series 2019B, CHFFA Revenue Bonds	2039	5.00	118	118
Series 2019C, CHFFA Revenue Bonds	2039	5.00	171	171
Series 2021A, Direct Obligation Bonds	2051	2.70	775	775
Series 2021B, WHCFA Revenue Bonds	2042	4.00	178	178
Series 2021C, PFA Revenue Bonds	2041	4.00	102	102
Series 2023A, Direct Obligation Notes	2028	5.42	110	—
Series 2023B, Direct Obligation Notes	2033	5.45	85	—
Series 2023C, Direct Obligation Notes	2043	5.71	188	—
Series 2023, Direct Obligation Bonds	2033	5.40	585	—
Total fixed rate			5,996	5,381

(In millions of dollars)

	Maturing through	Effective interest rate (1) 2023	Effective interest rate (1) 2022	Unpaid principal 2023	Unpaid principal 2022
Variable rate:					
Series 2016D, WHCFA Revenue Bonds	2036	4.04	1.86	63	74
Series 2016E, WHCFA Revenue Bonds	2036	3.90	1.78	42	54
Total variable rate				105	128
Wells Fargo Credit Facility	2026	5.83	3.00	760	990
Wells Fargo	2026	6.10	3.60	300	300
PNC Bank	2025	5.73	3.50	200	200
PNC Bank	2027	5.89	3.65	127	127
Morgan Stanley Bank	2023	5.61	4.04	—	200
Unpaid principal, master trust debt				7,488	7,326
Premiums, discounts, and unamortized financing costs, net				151	181
Master trust debt, including premiums and discounts, net				7,639	7,507
Other long-term debt				723	717
Total debt				$ 8,362	8,224

(1) Variable rate debt and credit facilities carry floating interest rates attached to indexes, which are subject to change based on market conditions.

Short-term master trust debt includes debt issued with final maturity or mandatory redemption within one year of December 31, 2023 and 2022.

During 2022, the Health System placed several new credit facilities totaling $827 million to address liquidity.

In February 2023, the Health System issued the Series 2023A, B & C private placement notes totaling $383 million. In May 2023, the Health System closed on its Series 2023 taxable fixed rate refunding bonds totaling $585 million. The intended uses of funds included refinancing legacy SJHS and PHS master trust debt and refunding an existing term loan and debt services due in 2023.

(In millions of dollars)

The following table reflects classification of long-term debt obligations in the accompanying combined balance sheets as of December 31:

		2023	2022
Current portion of long-term debt	$	160	166
Master trust debt classified as short-term		138	452
Long-term debt, classified as a long-term liability		8,064	7,606
Total debt	$	8,362	8,224

(b) Other Long-Term Debt

Other long-term debt consists of the following as of December 31:

		2023	2022
Finance leases	$	690	637
Notes payable and other		33	80
Total other long-term debt	$	723	717

(c) Debt Service

Scheduled principal payments of long-term debt, considering all obligations under the master trust indenture as due according to their long-term amortization schedule, for the next five years and thereafter are as follows:

		Master trust	Other	Total
2024	$	206	92	298
2025		579	77	656
2026		1,421	89	1,510
2027		301	37	338
2028		162	34	196
Thereafter		4,819	394	5,213
Scheduled principal payments of long-term debt	$	7,488	723	8,211

(d) Derivative Instruments

The Health System uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. As of December 31, 2023 and 2022, the Health System had interest rate swap contracts with a total current notional amount totaling $0 and $395, respectively, with varying expiration dates. The interest rate swap agreements do not meet the criteria for hedge accounting and all changes in the valuation are recognized as a component of net nonoperating gains (losses) in the accompanying combined statements of operations. Settlements related to these agreements are classified as a component of interest, depreciation, and amortization expense in the accompanying combined statements of operations. For the years ended December 31, 2023 and 2022, the change in valuation was a gain of $17 and $78, respectively.

Derivative financial instruments are recorded at fair value taking into consideration the Health System's and the counterparties' nonperformance risk. The fair value of the interest rate swaps is based on independent valuations obtained and are determined by calculating the value of the discounted cash flows of the differences between the fixed interest rate of the interest rate swaps and the counterparty's forward London Interbank Offered Rate curve, which is the input used in the valuation, taking also into account any nonperformance risk. Collateral posted for the interest rate swaps consist of cash and U.S. government securities, which are both categorized as Level 1 financial instruments.

As of December 31, 2023 and 2022, the fair value of outstanding interest rate swaps was in a net liability position of $0 and $37, respectively, and is included in other liabilities in the accompanying combined balance sheets. These liabilities are valued using Level 2 fair value measurements. There was no collateral posted in connection with the outstanding swap agreements as of December 31, 2023 and 2022.

During the fourth quarter of 2023, Providence has terminated interest rate swap agreements with MUFG Bank, Ltd. and Wells Fargo. The final termination costs netted to approximately $21 million.

(In millions of dollars)

(9) Retirement Plans

(a) Defined Benefit Plans

The Health System sponsors various frozen defined benefit retirement plans. The measurement dates for the defined benefit plans are December 31. A rollforward of the change in projected benefit obligation and change in the fair value of plan assets for the defined benefit plans is as follows:

		2023	2022
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	2,171	2,896
Service cost		10	15
Interest cost		117	84
Actuarial loss (gain)		57	(621)
Benefits paid and other		(169)	(203)
Projected benefit obligation at end of year		2,186	2,171
Change in fair value of plan assets:			
Fair value of plan assets at beginning of year		1,492	1,919
Actual return on plan assets		163	(335)
Employer contributions		72	111
Benefits paid and other		(169)	(203)
Fair value of plan assets at end of year		1,558	1,492
Funded status		(628)	(679)
Unrecognized net actuarial loss		271	300
Unrecognized prior service cost		2	2
Net amount recognized	$	(355)	(377)
Amounts recognized in the combined balance sheets consist of:			
Noncurrent assets	$	33	—
Current liabilities		(1)	(1)
Noncurrent liabilities		(660)	(678)
Net assets without donor restrictions		273	302
Net amount recognized	$	(355)	(377)
Weighted average assumptions (projected benefit obligation):			
Discount rate		5.30 %	5.60 %
Rate of increase in compensation levels		4.00	6.00

(Continued)

(In millions of dollars)

Net periodic pension cost for the defined benefit plans includes the following components:

		2023	2022
Components of net periodic pension cost:			
Service cost	$	10	15
Interest cost		117	84
Expected return on plan assets		(90)	(105)
Recognized net actuarial loss		3	38
Net periodic pension cost	$	40	32
Special recognition – settlement expense	$	9	15
Weighted Average Assumptions (net periodic pension cost):			
Discount rate		5.60 %	3.00 %
Rate of increase in compensation levels		6.00	4.00
Long-term rate of return on assets		4.75 - 6.75	6.25

Certain plans sponsored by the Health System allow participants to receive their benefit through a lump-sum distribution upon election. When lump-sum distributions exceed the combined total of service cost and interest cost during a reporting period, settlement expense is recognized. Settlement expense represents the proportional recognition of unrecognized actuarial loss and prior service cost. Settlement expense for the years ended December 31, 2023 and 2022 is included in net nonoperating gains (losses) in the accompanying combined statements of operations.

The accumulated benefit obligation was $2,155 and $2,130 at December 31, 2023 and 2022, respectively.

The following pension benefit payments reflect expected future service. Payments expected to be paid over the next 10 years are as follows:

2024	$	180
2025		180
2026		179
2027		176
2028		175
2029–2033		816
	$	1,706

The Health System expects to contribute approximately $82 to the defined benefit plans in 2024.

(In millions of dollars)

The expected long-term rate of return on plan assets is the expected average rate of return on the funds invested currently and on funds to be invested in the future in order to provide for the benefits included in the projected benefit obligation. The Health System used 6.25% in calculating the 2022 expense amounts. The Health System used a range of 4.75% to 6.75% in calculating the 2023 expense amounts. This assumption is based on capital market assumptions and the plan's target asset allocation.

The Health System continues to monitor the expected long-term rate of return. If changes in those parameters cause the expected rate of return to be outside of a reasonable range of expected returns, or if actual plan returns over an extended period of time, suggest that general market assumptions are not representative of expected plan results, the Health System may revise this estimate prospectively.

The target asset allocation and expected long-term rate of return on assets (ELTRA) were as follows at December 31:

	2023 Target	2023 ELTRA	2022 Target	2022 ELTRA
Cash and cash equivalents	5 %	3 %	2 %	3 %
Equity securities	45	7%–8%	45	8%–9%
Debt securities	35	5%–6%	33	5%–6%
Other securities	15	6%–8%	20	6%–9%
Total	100 %	4.75% – 6.75%	100 %	4.75% – 6.75%

(In millions of dollars)

The following table presents the Health System's defined benefit plan assets measured at fair value:

	December 31, 2023	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 132	132	—	—
Equity securities:				
Domestic	401	401	—	—
Foreign	153	153	—	—
Domestic debt securities:				
State and government	231	194	37	—
Corporate	98	—	98	—
Other	166	151	15	—
Foreign debt securities	33	—	33	—
Investments measured using NAV	406			
Transactions pending settlement, net	(62)			
Total	$ 1,558			

(Continued)

(In millions of dollars)

The following table presents the Health System's defined benefit plan assets measured at fair value:

	December 31, 2022	Fair value measurements at reporting date using Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$ 165	165	—	—
Equity securities:				
Domestic	309	309	—	—
Foreign	127	127	—	—
Domestic debt securities:				
State and government	244	198	46	—
Corporate	113	—	113	—
Other	75	54	21	—
Foreign debt securities	40	—	40	—
Investments measured using NAV	488			
Transactions pending settlement, net	(69)			
Total	$ 1,492			

The Health System's defined benefit plans participate in various funds that are not actively marketed on an open exchange. These investments consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Due to the nature of these funds the NAV per share, or its equivalent, reported by each fund manager is used as a practical expedient to estimate the fair value of the Health System's interest therein. Management believes that the carrying amounts of these financial instruments provided by the fund managers are reasonable estimates of fair value.

The following table presents information for investments where either the NAV per share or its equivalent was used to value the investments as of December 31:

	Fair value 2023	Fair value 2022	Redemption frequency	Redemption notice period
Hedge funds:				
Long/short equity	$ 36	52	Monthly or quarterly	30–120 days
Credit and other	174	222	Monthly or quarterly	5-90 days
Commingled	196	214	Bi-weekly or monthly	3–30 days
Total	$ 406	488		

(In millions of dollars)

The Health System's defined benefit plans also allow certain investment managers to use derivative financial instruments (futures and forward currency contracts) to manage interest rate risk related to the plans' fixed-income holdings. The investment managers have executed master netting arrangements with the counterparties of the futures and forward currency purchase and sale contracts whereby the financial instruments held by the same counterparty are legally offset as the instruments are settled. The following table presents gross investment derivative assets and liabilities reported on a net basis at fair value included in the plans' assets as of December 31:

		2023	2022
Derivative assets:			
Futures contracts	$	278	322
Foreign currency forwards and other contracts		3	3
Total derivative assets	$	281	325
Derivative liabilities:			
Futures contracts	$	(278)	(322)
Foreign currency forwards and other contracts		(3)	(3)
Total derivative liabilities	$	(281)	(325)

(b) Defined Contribution Plans

The Health System sponsors various defined contribution retirement plans that cover substantially all employees. The plans provide for employer matching contributions in an amount equal to a percentage of employee pretax contributions, up to a maximum amount. In addition, the Health System makes contributions to eligible employees based on years of service. Retirement expense related to these plans was $606 and $488 in 2023 and 2022, respectively, and is reflected in salaries and benefit expense in the accompanying combined statements of operations.

(c) Other Plans

The Health System recorded amounts totaling $648 and $529 as of December 31, 2023 and 2022, respectively, based on the fair value of various 457 (b) plans' assets. These other plan assets are investments in mutual funds valued using Level 1 fair value measurements and are included in other assets in the accompanying combined balance sheets. The corresponding liability is included in other long term liabilities in the accompanying combined balance sheets.

(10) Self-Insurance Liabilities

The Health System has established self-insurance programs for professional and general liability and workers' compensation insurance coverage. These programs provide insurance coverage for healthcare institutions associated with the Health System. The Health System also operates insurance captives, Providence Assurance, Inc., to self-insure or reinsure certain layers of professional and general liability risk.

The Health System accrues estimated self-insured professional and general liability and workers' compensation insurance claims based on management's estimate of the ultimate costs for both reported claims and actuarially determined estimates of claims incurred but not reported. Insurance coverage in excess of the per occurrence self-insured retention has been secured with insurers or reinsurers for specified amounts for professional, general, and workers' compensation liabilities. Decisions relating to the limit and scope of the self-insured layer and the amounts of excess insurance purchased are reviewed each year, subject to management's analysis of actuarial loss projections and the price and availability of acceptable commercial insurance.

At December 31, 2023 and 2022, the estimated liability for future costs of professional and general liability claims was $774 and $646, respectively. At December 31, 2023 and 2022, the estimated workers' compensation obligation was $307 and $337, respectively. Both are recorded in other current liabilities and other liabilities in the accompanying combined balance sheets.

(11) Commitments and Contingencies

(a) Commitments

Firm purchase commitments at December 31, 2023, primarily related to construction and equipment and software acquisition, are approximately $208.

(b) Litigation

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Government monitoring and enforcement activity continues with respect to investigations and allegations concerning possible violations by healthcare providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of patient services previously billed. Institutions within the Health System are subject to similar regulatory reviews.

Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Health System's combined financial statements.

(Continued)

(In millions of dollars)

(12) Functional Expenses

Operating expenses classified by their natural classification on the combined statements of operations are presented by their functional classifications as follows for the years ended December 31:

	2023								
	Program activities					Supporting activities			
	Hospitals	Health plans and accountable care	Physician and outpatient	Long-term care, home care, and hospice	Total programs	General and administrative	Other	Total supporting	Total operating expenses
Salaries and benefits	$ 8,252	168	2,962	793	12,175	2,930	133	3,063	15,238
Supplies	3,371	2	307	244	3,924	—	597	597	4,521
Purchased healthcare services	237	1,381	610	214	2,442	—	20	20	2,462
Interest, depreciation, and amortization	736	7	60	19	822	629	9	638	1,460
Purchased services, professional fees and other	3,224	443	924	149	4,740	1,479	16	1,495	6,235
Total operating expenses	$ 15,820	2,001	4,863	1,419	24,103	5,038	775	5,813	29,916

	2022								
	Program activities					Supporting activities			
	Hospitals	Health plans and accountable care	Physician and outpatient	Long-term care, home care, and hospice	Total programs	General and administrative	Other	Total supporting	Total operating expenses
Salaries and benefits	$ 7,750	148	2,740	724	11,362	2,858	112	2,970	14,332
Supplies	3,106	2	307	216	3,631	17	481	498	4,129
Purchased healthcare services	189	1,245	585	185	2,204	—	22	22	2,226
Interest, depreciation, and amortization	676	7	57	19	759	514	9	523	1,282
Purchased services, professional fees and other	2,865	371	1,010	132	4,378	1,505	34	1,539	5,917
Restructuring costs and other	—	—	—	—	—	247	—	247	247
Total operating expenses	$ 14,586	1,773	4,699	1,276	22,334	5,141	658	5,799	28,133

Supporting activities include costs that are not controllable by operational leadership. Health System leadership drives these costs, which benefit the entire Health System. Costs that are controllable by operational leadership are allocated to the respective program activities.

PROVIDENCE ST. JOSEPH HEALTH

Supplemental Schedule – Obligated Group Combining Balance Sheets Information

December 31, 2023 and 2022

(In millions of dollars)

	2023			2022		
Assets	**Obligated Group**	**Nonobligated, Eliminations, and Other**	**Total combined**	**Obligated Group**	**Nonobligated, Eliminations, and Other**	**Total combined**
Current assets:						
Cash and cash equivalents	$ 1,375	93	1,468	458	605	1,063
Accounts receivable	2,827	218	3,045	2,635	206	2,841
Supplies inventory	353	20	373	337	22	359
Other current assets	1,889	541	2,430	1,567	185	1,752
Current portion of assets whose use is limited	587	114	701	417	239	656
Total current assets	7,031	986	8,017	5,414	1,257	6,671
Assets whose use is limited	4,024	2,998	7,022	5,612	2,900	8,512
Property, plant, and equipment, net	8,472	715	9,187	8,827	1,390	10,217
Operating lease right-of-use assets	763	409	1,172	842	423	1,265
Other assets	3,693	(787)	2,906	2,835	(592)	2,243
Total assets	$ 23,983	4,321	28,304	23,530	5,378	28,908
Liabilities and Net Assets						
Current liabilities:						
Current portion of long-term debt	$ 145	15	160	156	10	166
Master trust debt classified as short-term	138	—	138	452	—	452
Accounts payable	1,282	156	1,438	1,681	234	1,915
Accrued compensation	1,388	139	1,527	1,287	209	1,496
Current portion of operating lease liabilities	138	66	204	129	62	191
Other current liabilities	1,523	870	2,393	1,222	932	2,154
Total current liabilities	4,614	1,246	5,860	4,927	1,447	6,374
Long-term debt, net of current portion	7,815	249	8,064	7,321	285	7,606
Pension benefit obligation	660	—	660	678	—	678
Long-term operating lease liabilities, net of current portion	731	376	1,107	853	398	1,251
Other liabilities	1,116	508	1,624	616	792	1,408
Total liabilities	14,936	2,379	17,315	14,395	2,922	17,317
Net assets:						
Net assets without donor restrictions	7,808	1,677	9,485	7,986	2,218	10,204
Net assets with donor restrictions	1,239	265	1,504	1,149	238	1,387
Total net assets	9,047	1,942	10,989	9,135	2,456	11,591
Total liabilities and net assets	$ 23,983	4,321	28,304	23,530	5,378	28,908

See accompanying independent auditors' report.

PROVIDENCE ST. JOSEPH HEALTH

Supplemental Schedule – Obligated Group Combining Statements of Operations Information

Years ended December 31, 2023 and 2022

(In millions of dollars)

	2023			2022		
	Obligated Group	Nonobligated, Eliminations, and Other	Total combined	Obligated Group	Nonobligated, Eliminations, and Other	Total combined
Operating revenues:						
Net patient service revenues	$ 20,741	1,135	21,876	19,018	1,082	20,100
Other revenues	2,579	4,290	6,869	2,262	4,072	6,334
Total operating revenues	23,320	5,425	28,745	21,280	5,154	26,434
Operating expenses:						
Salaries and benefits	13,203	2,035	15,238	12,236	2,096	14,332
Supplies	4,194	327	4,521	3,808	321	4,129
Interest, depreciation, and amortization	1,305	155	1,460	1,111	171	1,282
Purchased services, professional fees, and other	5,369	3,328	8,697	4,816	3,327	8,143
Total operating expenses	24,071	5,845	29,916	21,971	5,915	27,886
Deficit of revenues over expenses from operations before restructuring costs and other	(751)	(420)	(1,171)	(691)	(761)	(1,452)
Restructuring costs and other	—	—	—	247	—	247
Deficit of revenues over expenses from operations	(751)	(420)	(1,171)	(938)	(761)	(1,699)
Net nonoperating gains (losses):						
Investment income (loss), net	420	232	652	(714)	(313)	(1,027)
Loss from disaffiliation	—	—	—	(3,408)	—	(3,408)
Other	(60)	(17)	(77)	(64)	76	12
Total net nonoperating gains (losses)	360	215	575	(4,186)	(237)	(4,423)
Deficit of revenues over expenses	$ (391)	(205)	(596)	(5,124)	(998)	(6,122)

See accompanying independent auditors' report.