Combined Financial Statements and Supplementary Information

Presbyterian Healthcare Services and Affiliates
Years Ended December 31, 2022 and 2021
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

Presbyterian Healthcare Services and Affiliates

Combined Financial Statements
and Supplementary Information

Years Ended December 31, 2022 and 2021

Contents

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Report of Independent Auditors

The Board of Directors
Presbyterian Healthcare Services

We have audited the combined financial statements of Presbyterian Healthcare Services and Affiliates (the Company), which comprise the combined balance sheets as of December 31, 2022 and 2021, and the related combined statements of operations, 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 Company at December 31, 2022 and 2021, and the 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 Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the 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 Company'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 Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information

Management is responsible for the other information. The other information comprises the Annual Report 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

April 20, 2023

Presbyterian Healthcare Services and Affiliates

Combined Balance Sheets

	December 31 2022	December 31 2021
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 395,585**	$ 474,550
Accounts receivable	**201,761**	182,905
Other receivables	**318,411**	291,054
Inventories, prepaid expenses, and other current assets	**78,531**	74,664
Total current assets	**994,288**	1,023,173
Assets limited as to use or restricted:		
Designated for long-term purposes	**2,358,319**	2,631,909
Designated for self-insurance funds	**166,137**	182,083
Restricted by donors	**59,007**	65,980
Held by trustee	**92,388**	145,538
Restricted for statutory requirements	**256,266**	244,866
	2,932,117	3,270,376
Property and equipment, net	**1,221,337**	1,204,461
Goodwill	**108,042**	108,042
Other assets	**328,444**	335,602
Total assets	**$ 5,584,228**	$ 5,941,654
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 101,804**	$ 116,323
Due under Medicaid contract	**185,477**	137,143
Accrued liabilities	**373,897**	264,182
Medical claims payable	**396,976**	394,089
Estimated third-party payor settlements	**11,239**	10,101
Short-term borrowings and current installments on long-term debt	**12,476**	117,549
Total current liabilities	**1,081,869**	1,039,387
Long-term debt, net of current portion	**1,069,196**	1,031,714
Employee benefit plans	**155,512**	211,496
Self-insurance plans	**292,196**	290,077
Other liabilities	**103,366**	180,241
Total liabilities	**2,702,139**	2,752,915
Net assets without donor restrictions:		
Attributable to Presbyterian Healthcare Services	**2,769,051**	3,069,064
Attributable to noncontrolling interests	**52,665**	51,606
Net assets without donor restrictions	**2,821,716**	3,120,670
Net assets with donor restrictions	**60,373**	68,069
Total net assets	**2,882,089**	3,188,739
Total liabilities and net assets	**$ 5,584,228**	$ 5,941,654

See accompanying notes.

Presbyterian Healthcare Services and Affiliates

Combined Statements of Operations

	Year Ended December 31	
	2022	**2021**
	(In Thousands)	
Operating revenues:		
Net premiums	**$ 4,081,395**	$ 3,692,491
Net patient service revenue	**1,336,637**	1,280,691
Other operating revenues	**129,800**	129,623
Total operating revenues	**5,547,832**	5,102,805
Expenses:		
Medical claims	**2,607,230**	2,387,158
Salaries, wages, and employee benefits	**1,501,230**	1,344,753
Purchased services and other	**858,430**	690,181
Supplies	**472,860**	418,264
Professional fees	**52,034**	38,195
Depreciation and amortization	**126,118**	120,464
Interest	**35,370**	34,775
Total expenses	**5,653,272**	5,033,790
Operating (loss) income	**(105,440)**	69,015
Other (loss) income:		
Investment income	**33,614**	189,612
Change in net unrealized (loss) gain on investments	**(333,799)**	43,570
Gain on debt extinguishment	**4,906**	–
Loss on ASC sale	**(944)**	–
Change in fair value of interest rate swaps	**33,837**	13,457
Total other (loss) income	**(262,386)**	246,639
(Deficiency) excess of revenues over expenses before income taxes	**(367,826)**	315,654
Provision for income taxes	**2,394**	41,646
(Deficiency) excess of revenues over expenses	**(370,220)**	274,008
Less excess of revenues over expenses attributable to noncontrolling interests	**(6,427)**	(9,058)
(Deficiency) excess of revenues over expenses attributable to Presbyterian Healthcare Services	**$ (376,647)**	$ 264,950

See accompanying notes.

Presbyterian Healthcare Services and Affiliates

Combined Statements of Changes in Net Assets

	Year Ended December 31	
	2022	**2021**
	(In Thousands)	
Net assets without donor restrictions		
(Deficiency) excess of revenues over expenses attributable to Presbyterian Healthcare Services	**$ (376,647)**	$ 264,950
Change in pension obligation	**53,429**	25,797
Other changes in net assets	**23,205**	2,940
Change in net assets without donor restriction attributable to Presbyterian Healthcare Services	**(300,013)**	293,687
Distributions to noncontrolling interests	**(7,748)**	(7,544)
Ambulatory surgery center interests sold	**2,380**	2,153
Excess of revenues over expenses attributable to noncontrolling interests	**6,427**	9,058
Change in net assets without donor restriction attributable to noncontrolling interests	**1,059**	3,667
Net assets with donor restrictions		
Donor-restricted contributions	**3,687**	5,923
Investment (loss) income and other	**(3,333)**	5,934
Net assets released from restrictions	**(8,050)**	(3,426)
Change in net assets with donor restrictions	**(7,696)**	8,431
Change in net assets	**(306,650)**	305,785
Net assets, beginning of year	**3,188,739**	2,882,954
Net assets, end of year	**$ 2,882,089**	$ 3,188,739

See accompanying notes.

Presbyterian Healthcare Services and Affiliates

Combined Statements of Cash Flows

	Year Ended December 31 2022	2021
	(In Thousands)	
Operating activities		
Change in net assets	**$ (306,650)**	$ 305,785
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change in net unrealized loss (gain) on investments	**333,799**	(43,570)
Gain on debt extinguishment	**(4,906)**	–
Proceeds from interest rate lock	**(23,493)**	–
Change in fair value of interest rate swaps	**(33,837)**	(13,457)
Ambulatory surgery center interests sold	**(2,380)**	(2,153)
Distributions to noncontrolling interests	**7,748**	7,544
Depreciation and amortization	**126,118**	120,464
Changes in operating assets and liabilities:		
Accounts receivable	**(18,856)**	(24,332)
Other receivables	**(27,357)**	(105,430)
Inventories, prepaid expenses, and other current assets	**(3,867)**	16,565
Trading securities, net	**(79,930)**	(357,597)
Other assets	**1,539**	(55,373)
Accounts payable	**(14,519)**	17,576
Due under Medicaid contract	**48,334**	58,996
Accrued liabilities	**110,376**	(22,484)
Medical claims payable	**2,887**	85,804
Estimated third-party payor settlements	**1,138**	5,150
Other liabilities	**(96,903)**	(32,938)
Net cash provided by (used in) operating activities	**19,241**	(39,450)
Investing activities		
Sales of assets held by trustee and statutory deposits	**118,369**	106,290
Purchases of assets held by trustee and statutory deposits	**(76,619)**	(52,761)
Purchases of property and equipment	**(136,971)**	(194,206)
Net cash used in investing activities	**(95,221)**	(140,677)
Financing activities		
Proceeds from issuance of long-term debt	**313,167**	–
Payments on long-term debt, including deposits into escrow for defeasance	**(376,917)**	(17,880)
Proceeds from interest rate lock	**23,493**	–
Ambulatory surgery center interests sold	**2,380**	2,153
Distributions to noncontrolling interests	**(7,748)**	(7,544)
Net cash used in financing activities	**(45,625)**	(23,271)
Change in cash, cash equivalents, and restricted cash	**(121,605)**	(203,398)
Cash, cash equivalents, and restricted cash, beginning of year	**637,899**	841,297
Cash, cash equivalents, and restricted cash, end of year	**$ 516,294**	$ 637,899
Supplemental disclosures of cash flow information		
Cash paid for interest, net of amounts capitalized	**$ 33,738**	$ 36,714
Cash paid for income taxes	**$ 38,402**	$ 28,627

See accompanying notes.

1. Organization

Presbyterian Healthcare Services (PHS) is a New Mexico nonprofit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). PHS is a diversified health care organization that owns, leases, controls, operates, or manages a variety of health-care-related organizations, including seven hospitals in New Mexico, a for-profit health maintenance organization (HMO), and several other affiliated organizations. PHS provides a broad range of health care services, including inpatient, outpatient, subacute, home health care, and physician services.

PHS consists of the following divisions and affiliates:

Presbyterian Healthcare Services Divisions

Presbyterian Hospital,* including the following, which are designated as remote locations of Presbyterian Hospital:
- Presbyterian Kaseman Hospital*
- Presbyterian Northside*
- Presbyterian Rust Medical Center*

Santa Fe Medical Center*
Plains Regional Medical Center*
Presbyterian Española Hospital*
Socorro General Hospital*
Lincoln County Medical Center (leased facility)
Dr. Dan C. Trigg Memorial Hospital (leased facility)

Presbyterian Healthcare Services Affiliates

Southwest Health Foundation
Presbyterian Network, Inc.:
- Presbyterian Insurance Company, Inc.
- Presbyterian Health Plan, Inc.
- Fluent Health, LLC
- Albuquerque Imaging Associates
- Southwest Magnetic Imaging Associates

Presbyterian Properties, Inc.
Presbyterian Healthcare Foundation*
Bernalillo County Health Care Corporation d.b.a. Albuquerque Ambulance Service*
New Mexico Orthopaedic Surgery Center ASC, LLC
PHS/USP Health Ventures, LLC
Presbyterian Hospital ASC, LLC
Presbyterian Rust Medical Center ASC, LLC
ClearSky 1, Inc.

*Denotes Obligated Group members.

1. Organization (continued)

PHS accesses the capital markets through an Obligated Group. Obligated Group members include PHS and certain divisions and affiliates as noted above, which are jointly and severally liable for the long-term debt outstanding under a Master Trust Indenture. None of the other PHS affiliates have any obligation related to requirements of the Master Trust Indenture. The Obligated Group's net assets represent approximately 70% and 71% of PHS and affiliates' combined net assets at December 31, 2022 and 2021, respectively.

Presbyterian Network, Inc. (PNI) is a wholly owned subsidiary of Southwest Health Foundation. PNI is the parent organization of two wholly owned subsidiaries: Presbyterian Health Plan, Inc. (PHP) and Presbyterian Insurance Company, Inc. (PIC). PHP is a state-licensed HMO in New Mexico and is also a federally qualified HMO under Title XIII of the Public Health Service Act. PHP provides comprehensive health care services in New Mexico to individuals primarily through health maintenance contracts with employer groups and individuals. PHP has a five-year contract with the state of New Mexico to provide physical health, behavioral health, and long-term care services to Medicaid eligible individuals under the Centennial Care program. The current five-year contract began January 1, 2019. PHP also offers an HMO product to Medicare-eligible individuals (Medicare Advantage). The Medicare Advantage product provides managed care services that include all Medicare benefits and, in some cases, additional managed care services. PIC offers preferred provider and indemnity products to individuals through contracts with employer groups, as well as stop-loss coverage to some of PHP's self-funded employer groups.

Fluent Health, LLC (Fluent) is a management services organization owned by PNI, PHP, and PIC. The business purpose of Fluent is to provide claims processing, administrative, management, and consulting services to health plans. Currently, Fluent provides these services to PHP and PIC.

On February 1, 2020, PHS entered into an agreement to purchase an ownership interest in New Mexico Orthopaedic Surgery Center LLC (NMOSC). PHS and another owner of NMOSC contributed their shares of NMOSC to the newly formed PHS/USP Health Ventures, LLC (PUHV). PUHV consolidates NMOSC through its control and majority ownership in NMOSC. PHS consolidates PUHV through its control and majority ownership in PUHV. Certain transactions between these entities are eliminated in consolidation and PHS reflects the activity attributable to the other owners as noncontrolling interest in the accompanying combined financial statements.

1. Organization (continued)

On February 1, 2020, PHS established the Presbyterian Hospital ASC, LLC (PHASC). PHS consolidates PHASC through its control and majority ownership in PHASC. Certain transactions between these entities are eliminated in consolidation and PHS reflects the activity attributable to the other owners as noncontrolling interest in the accompanying combined financial statements.

On March 1, 2021, PHS established the Presbyterian Rust Medical Center ASC, LLC (Rust ASC). PHS consolidates Rust ASC through its control and majority ownership in Rust ASC. Certain transactions between these entities are eliminated in consolidation and PHS reflects the activity attributable to the other owners as noncontrolling interest in the accompanying combined financial statements.

ClearSky 1, Inc. (ClearSky) is a holding company owned by PHS that owns certain joint ventures and other investments.

Basis of Presentation

The accompanying financial statements include the combined accounts of PHS and its affiliates as described in Note 1 (collectively, Presbyterian Healthcare Services), including Presbyterian Healthcare Foundation (the Foundation), which is not a controlled entity. However, the Foundation is organized for the benefit and support of PHS, and its financial position and results of operations are combined herein. All significant intercompany balances and transactions have been eliminated in combination.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and highly liquid investments with original maturities at the time of purchase of three months or less. The carrying value of cash and cash equivalents approximates fair value.

(Dollar Amounts in Thousands)

2. Summary of Significant Accounting Policies (continued)

Cash, cash equivalents, and restricted cash as reported on the accompanying combined statements of cash flows are presented separately on the accompanying combined balance sheets in the following asset classes:

	December 31 2022	2021
Cash and cash equivalents	**$ 395,585**	$ 474,550
Assets limited as to use or restricted	**120,709**	163,349
	$ 516,294	$ 637,899

Accounts Receivable

Accounts receivable consist of patient accounts that are recorded at net realizable value based on certain assumptions. In evaluating the collectibility of accounts receivable, PHS analyzes its history and identifies trends for the appropriate allowances to reduce accounts receivable to net realizable value of its major payor sources of revenue, as well as self-pay patients.

Management regularly reviews data about its major sources of revenue in evaluating the sufficiency of the allowances on accounts receivable. For receivables associated with services provided to patients who have third-party coverage, PHS analyzes historical collections as a basis for estimating future collections of accounts receivable. PHS has a policy of providing discounts to self-pay patients without insurance. PHS' uninsured discount policies during 2022 and 2021 provided for a discount of 30% from standard rates for most services. These uninsured discounts are recorded with contractual adjustments as a reduction of patient service revenue. The estimated uncollectible amounts due from self-pay patients are generally considered implicit price concessions that are direct reductions of accounts receivable. The implicit price concessions are recognized immediately based on historical results.

2. Summary of Significant Accounting Policies (continued)

Assets Limited as to Use or Restricted

Assets limited as to use or restricted include assets set aside by PHS for future long-term purposes, including capital improvements and self-insurance, over which PHS retains control and may at its discretion subsequently use for other purposes and investments held by PNI that are used to meet specified capital requirements for regulatory purposes. In addition, assets limited as to use or restricted include assets held by trustees under bond indenture agreements, contributions by donors with stipulated restrictions, and amounts on deposit to satisfy statutory requirements of the New Mexico Office of Superintendent of Insurance.

These assets consist primarily of cash, cash equivalents, government securities, other fixed-income securities, equity securities, derivatives, and alternative investments. The carrying amounts of investments in marketable debt and equity securities are reported on the accompanying combined balance sheets at fair value. Alternative investments are reported under the equity method of accounting using the net asset value (NAV) as a practical expedient, except for alternative investments held by the Foundation, which are reported at fair value.

PHS also invests in various commingled funds, which are assets from multiple accounts blended into a single fund. Commingled funds do not have a readily determinable fair value; therefore, the NAV is used as a practical expedient for fair value. As such, they are excluded from the fair value hierarchy.

Income or loss related to the investment portfolio (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Income or loss restricted by donor or law is classified as a change in net assets with donor restrictions consistent with the applicable restrictions.

As a condition of its Medicaid Centennial Care contract with the New Mexico Human Services Department (HSD), PHP is required to maintain an account with a balance equal to 90% of the average of the past three months' capitation payments made to PHP from HSD. As of December 31, 2022 and 2021, $255,071 and $243,645, respectively, was held in bonds and cash in a restricted managed asset account to satisfy this requirement.

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, requires the categorization of financial assets and liabilities into a three-level hierarchy based on pricing inputs to the valuation technique. The fair value hierarchy gives the highest priority to the quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The various levels of the fair value hierarchy are described as follows:

Level 1 – Pricing is based on observable inputs, such as quoted prices in active markets.

Level 2 – Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including, but not limited to, private and public comparable, third-party appraisals, discounted cash flow models, and fund manager estimates.

Assets and liabilities measured at fair value are based on one or more valuation techniques noted in ASC 820. Where more than one technique is noted, individual assets or liabilities were valued using one or more of the noted techniques. The valuation techniques are as follows:

(a) *Market Approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

(b) *Cost Approach* – Amount that would be required to replace the service capacity of an asset (replacement cost).

2. Summary of Significant Accounting Policies (continued)

(c) *Income Approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option pricing, and excess earnings models).

(d) *NAV* – Represents the difference between the assets and liabilities of an investment fund or partnership expressed on a per share or unit basis on the valuation date. Underlying asset and liability values may utilize techniques (a), (b), or (c).

When observable market data is available, it is required to be used in determining the fair value measurement. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level of input that is significant to the fair value measurement.

The majority of PHS' marketable debt and equity securities are measured based on observable market prices. PHS' interest rate swaps are measured using models based upon observable pricing inputs. Note 7 further describes the methods applied to determine the fair value of PHS' financial assets and liabilities.

The carrying values of financial instruments classified as current assets and current liabilities approximate fair value due to their liquidity and short-term natures.

Inventories

Inventories, consisting of drugs and supplies, are stated at the lower of cost (first-in, first-out method) or net realizable value.

Property and Equipment

Property and equipment purchases are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The following useful lives are being used by PHS:

Land improvements	2–25 years
Buildings and improvements	5–40 years
Equipment and capitalized software	3–20 years

2. Summary of Significant Accounting Policies (continued)

Interest cost incurred on borrowed funds, net of interest earned on assets held by trustee during the period of construction of qualified capital projects, is capitalized as a component of the cost of acquiring those assets.

Goodwill

In 1997, PHS acquired Secure Horizons, USA, and recorded goodwill of $52,501. Additionally, as a result of the transactions between PHS, PUHV, and NMOSC in 2020, PHS recorded additional goodwill of $55,341. PHS follows the provisions of ASC 350, *Intangibles – Goodwill and Other*. Management assesses goodwill impairment using a qualitative evaluation, unless impairment triggers are identified. There was no goodwill impairment in either 2022 or 2021.

Impairment of Long-Lived Assets

PHS evaluates whether events and circumstances have occurred that indicate the remaining estimated useful lives of long-lived assets, other than goodwill, may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying amount of the asset based on undiscounted cash flows. Impairments are calculated as the total by which the carrying amount of the asset exceeds its estimated fair value. For the years ended December 31, 2022 and 2021, management determined that there was no impairment of its long-lived assets.

Net Assets With Donor Restrictions

Unconditional pledges to give cash and other assets are reported at fair value at the date the pledge is received. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and recognized as a component of other operating revenue. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in other operating revenue.

(Dollar Amounts in Thousands)

2. Summary of Significant Accounting Policies (continued)

Premium Revenues, Medical Claims Payable, and Health Care Expenses

Premium revenues are recognized in the month in which members are entitled to health care services. Premiums collected in advance are recorded as unearned premiums and are included in accrued liabilities on the accompanying combined balance sheets. During 2022 and 2021, premium revenue was as follows:

	Year Ended December 31	
	2022	**2021**
Net premiums:		
Medicaid	**$ 3,206,635**	$ 2,883,475
Medicare	**602,562**	568,175
Commercial	**272,198**	240,841
	$ 4,081,395	$ 3,692,491

Coordination of benefits and subrogation are recognized in the period such amounts are determined to be recoverable from other insurers.

PHP is contracted with the state of New Mexico to serve the Medicaid population under the New Mexico Centennial Care program. All Medicaid services, including physical health, behavioral health, and long-term care, are provided as part of this program. PHP is one of three HMOs currently contracted by the state to administer the New Mexico Centennial Care program.

Under this contract, PHP receives a fixed monthly premium from the state to provide comprehensive health care services for enrollees, including those enrollees receiving services from PHS. PHS facilities and physicians are paid capitated or discounted fee-for-service rates from each of the HMOs. The medical claims costs of PHP on the accompanying combined statements of operations are net of intercompany eliminations for services rendered by PHS facilities, totaling $792,721 and $736,548 for the years ended December 31, 2022 and 2021, respectively.

2. Summary of Significant Accounting Policies (continued)

Under the Medicaid Centennial Care contract, PHP is permitted to retain 100% of the underwriting gain generated up to 3% annually. Underwriting gains above 3% are shared 50/50 between PHP and HSD. Additionally, for hepatitis C drugs, PHP is subject to risk corridor adjustments. PHP and HSD share in excess gains or losses generated under the contract based on a tiered structure. Liabilities for the underwriting gain limitation and risk corridors of $171,168 and $132,564 as of December 31, 2022 and 2021, respectively, were recorded on the accompanying combined balance sheets in due under Medicaid contract.

PHP and PIC serve as plan sponsors to offer Medicare Part D prescription drug insurance coverage under a contract with the Centers for Medicare & Medicaid Services (CMS). Premium revenue is recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits. Premium revenues are subject to a comprehensive risk reconciliation under which CMS shares in a portion of direct surplus or deficit related to Medicare Part D premiums. In addition to premium revenues, PHP and PIC receive prepayments from CMS related to low income, cost-sharing, and catastrophic reinsurance subsidies. PHP and PIC are fully reimbursed by CMS for costs incurred under these contract elements and, accordingly, there is no insurance risk to either company. Amounts received for these subsidies are not reflected as premium revenue, but rather are accounted for as deposits with the related liability recorded on the accompanying combined balance sheets. Pharmacy benefit costs not related to low income, cost-sharing, or catastrophic reinsurance subsidies and administrative costs under the contract are expensed as incurred.

The estimated cost of all health services rendered to members through December 31, but not yet paid as of that date, is included in medical claims payable. This claims expense estimate is developed using actuarial assumptions based on historical experience with respect to the timing of payments in relation to the dates of service. Subsequent changes to prior period estimates are reflected in the current period. Losses on contracts are recognized in the period when health care costs are expected to exceed premium revenue.

2. Summary of Significant Accounting Policies (continued)

Patient Service Revenue

PHS records net patient service revenue at the transaction price estimated to reflect the total consideration due from patients and third-party payors in exchange for providing goods and services in patient care. These services are considered to be single performance obligations and have durations of less than one year. Revenues are recorded as these goods and services are provided. The transaction price, which involves significant estimates, is determined based on PHS' standard charges for the goods and services provided, with a reduction recorded for price concessions related to third-party contractual arrangements, as well as patient discounts and price concessions. PHS determines the transaction price by grouping contracts with similar characteristics using a portfolio approach as it believes there would not be a material difference using a portfolio of similar contracts than if based on individual contracts.

PHS has agreements with third-party payors that provide for payments at amounts different from established charges. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, and negotiated discounts from established charges.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, reviews, and investigations. The differences between the estimated and actual adjustments are recorded as part of patient service revenue in future periods, as the amounts become known, or as years are no longer subject to such audits, reviews, and investigations.

Currently, New Mexico utilizes supplemental reimbursement programs for the purpose of providing reimbursement to providers to offset a portion of the cost of providing care to Medicaid and uninsured patients. Under these programs, PHS recognizes revenue in the period in which amounts are estimable and collection is reasonably assured. Reimbursement under these programs is reflected in net patient service revenue.

For uninsured patients who do not qualify for charity care, PHS recognizes revenue based on discounted rates, as provided by its policy. Based on historical experience, a significant portion of PHS' uninsured patients will be unable or unwilling to pay for the services provided. The estimated uncollectible amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net patient service revenue.

(Dollar Amounts in Thousands)

2. Summary of Significant Accounting Policies (continued)

Net patient service revenue, net of contractual allowances, discounts, and implicit price concessions, is recognized from the major payor sources as follows:

	Year Ended December 31	
	2022	**2021**
Net patient service revenue:		
Managed care and other third-party payors	**$ 665,998**	$ 701,456
Medicare	**447,068**	437,495
Medicaid	**187,071**	115,580
Self-pay	**36,500**	26,160
	$ 1,336,637	$ 1,280,691

Charity Care

As an integral part of its mission, PHS provides care to all patients, regardless of ability to pay for needed services. A patient is classified as a charity care patient in accordance with standards established across PHS and its affiliates. Charity care represents services rendered for which no, or only partial, payment is expected and, as such, is not included in revenues on the accompanying combined statements of operations.

Excess of Revenues Over Expenses

The accompanying combined statements of operations include a measurement for (deficiency) excess of revenues over expenses. Changes in net assets without donor restrictions, which are excluded from (deficiency) excess of revenues over expenses, include contributions of long-lived assets (including assets acquired using contributions that, by donor restrictions, were to be used for the purpose of acquiring such assets) and changes in the pension liability.

Other Income and Loss

Activities that result in gains or losses and are unrelated to the primary mission of PHS are considered to be other income and losses. Accordingly, investment income, changes in unrealized gains and losses on investments, gains on debt extinguishment, and unrealized changes in the fair value of interest rate swaps are reported as a component of other (loss) income.

2. Summary of Significant Accounting Policies (continued)

Taxes

PHS and all of its affiliates, except for ClearSky and PNI and its subsidiaries, have been determined to be tax-exempt corporations by the Internal Revenue Service and generally are not subject to federal taxes on income.

The taxable affiliates utilize the liability method in accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. Valuation allowances are used to reduce deferred tax assets to their estimated net realizable values when management determines ultimate recovery is not probable.

PHP and PIC are required to pay premium taxes to the state based on a percentage of adjusted premiums received related to the Commercial and Medicaid product lines. As a result of paying premium taxes, PHP and PIC are exempt from paying state income taxes. PHP and PIC recorded net premium tax expense of $201,970 and $99,722 in 2022 and 2021, respectively. These amounts are included within purchased services and other expenses on the accompanying combined statements of operations.

PHS is required to pay New Mexico Gross Receipts Tax (GRT) to the state based on taxable receipts of all licensed hospitals, less a 60% statutory deduction. PHS recorded GRT expense of $41,390 and $38,685 in 2022 and 2021, respectively. These amounts are included within purchased services and other expenses on the accompanying combined statements of operations.

ASC 740, *Income Taxes*, prescribes criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. PHS recognizes interest accrued related to tax contingencies in interest expense and penalties in operating expenses. As of December 31, 2022 and 2021, there was no significant impact on the accompanying combined financial statements related to the tax positions taken. There were no significant tax positions taken by management that required accrual as of December 31, 2022 or 2021.

2. Summary of Significant Accounting Policies (continued)

Derivative and Hedging Instruments

In accordance with ASC 815, *Derivatives and Hedging*, derivatives are recognized as either assets or liabilities at fair value on the accompanying combined balance sheets, regardless of the purpose or intent for holding them. For those derivatives not designated as hedges under such standards, the changes in fair value are recognized in the excess of revenues over expenses. PHS has not designated its derivatives related to marketable securities as hedged financial instruments. Accordingly, the change in the fair value of derivatives is recognized as a component of other (loss) income on the accompanying combined statements of operations.

Two of PHS' investment managers, which utilize derivative instruments, have executed master netting arrangements related to marketable securities for each of the derivative instruments held by the same counterparty, which are legally offset as the instrument is settled. PHS' derivative contracts related to marketable securities were reported on a net basis on the accompanying combined balance sheets as of December 31, 2022 and 2021, and are shown separately for assets and liabilities within Note 7.

Benefit Plans

PHS is the plan sponsor of a defined benefit pension plan (Plan I) and five other limited postretirement benefit plans. The funded status of Plan I is recognized on the accompanying combined balance sheets as the difference between the fair value of the investments and the actuarially determined pension obligation. Other required disclosures of ASC 715, *Compensation – Retirement Benefits*, include the accumulated benefit obligation and fair value of the plan's assets, assumptions used in the benefit obligation calculation, contributions, the asset allocation of the plan, and the expected benefits to be paid, which are shown within Note 11.

In addition to the plans described above, PHS sponsors certain defined contribution plans. Contributions to these plans are expensed as earned by the employees.

Use of Estimates

The preparation of combined financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses on the accompanying combined financial statements. Actual results could differ from those estimates.

(Dollar Amounts in Thousands)

3. Patient Service Revenue

A summary of payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or procedure. These rates vary according to patient classification systems based on clinical, diagnostic, and other factors.

Medicaid – The State Medicaid program consists of two primary plans. The larger plan is the New Mexico Centennial Care program. Medicaid services, including physical health, behavioral health, and long-term care, are provided as part of the New Mexico Centennial Care program. The smaller plan is a traditional Medicaid plan. PHS facilities and physicians are paid for inpatient acute care services on prospectively determined rates per discharge. Payments for outpatient services are made on a discounted fee-for-service basis.

Other – PHS has also entered into payment agreements with certain commercial insurance carriers, HMOs, and preferred provider organizations. The basis for payment to PHS under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Amounts received from third-party payors in excess of expected reimbursement are within net patient service revenue on the accompanying combined statements of operations.

4. Other Operating Revenues

Other operating revenues consist of the following:

	Year Ended December 31	
	2022	**2021**
COVID-19-related funding	**$ 46,744**	$ 44,100
Contributions and other	**37,391**	41,760
Health plan administrative fees	**36,571**	36,283
Tax appropriation revenue	**9,094**	7,480
	$ 129,800	$ 129,623

5. Community Benefit

In support of its mission and philosophy, PHS voluntarily provides free care to patients who cannot afford health care due to inadequate resources and/or patients who are uninsured. Because PHS does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as patient service revenues. The estimated cost of this voluntary free care less the amount, if any, ultimately received was $54,085 and $43,505 in 2022 and 2021, respectively.

In addition, PHS provides services to other patients under certain government-reimbursed public aid programs, which pay providers amounts that are generally less than the cost of rendering the services provided to the patients. The estimated unreimbursed cost of this care was approximately $380,345 and $295,623 in 2022 and 2021, respectively. These unreimbursed costs and costs of voluntary free care do not include any governmental funds received for providing access to health care to all residents of the local community.

PHS uses information from its cost accounting system and certain cost-to-charge ratios, where applicable, to estimate the cost of financial assistance and other community benefits reported.

PHS, in furtherance of its mission, also commits significant time and resources to endeavors and critical services that meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screenings and assessments; cancer and other support groups; hospice programs; free transportation, lodging, meals, and medications for transient patients when needed; funding for homeless health care programs; significant ongoing and temporary donations of office space and telephone systems for nonprofit health care organizations, including the Meals on Wheels program; free flu vaccine clinics; participation in regular blood drives; and the provision of educational opportunities for students interested in pursuing medical-related or pastoral careers.

6. Assets Limited as to Use or Restricted

PHS has designated the accumulation of certain funds for future replacement of property and equipment, other capital improvements, debt retirement, self-insurance reserves, and other long-term purposes. Under the terms of the Master Trust Indenture for the outstanding bond issues, funds held by the trustee have been established and legally designated for debt service and qualifying capital expenditures.

(Dollar Amounts in Thousands)

6. Assets Limited as to Use or Restricted (continued)

The following is a summary of assets limited as to use or restricted at fair value, except for certain alternative investments, which are recorded at NAV:

	December 31	
	2022	**2021**
Cash and cash equivalents	**$ 120,709**	$ 163,349
Fixed-income securities	**800,067**	911,588
Equity securities	**913,477**	1,224,661
Government securities	**544,774**	494,920
Alternative investments	**553,090**	475,858
	$ 2,932,117	$ 3,270,376

Fixed-income and government securities – These investment classes include investments in various fixed-income instruments that include investment-grade and senior secured below investment-grade domestic and international bonds, mortgage pools, and bonds issued by U.S. government agencies. These investment classes also include investments in commingled, mutual funds, and separately managed accounts that hold investments in fixed-income securities. The fixed-income investments are exposed to various kinds and levels of risk, including interest rate risk, credit risk, foreign exchange risk, and liquidity risk.

Equity securities – This investment class consists primarily of common equity securities of domestic and international companies. These securities trade through the major public domestic and international exchanges. This investment class also includes investments in commingled and mutual funds that hold investments in equity securities. The equity securities investments are exposed to various risks, including market risk; individual security risk; foreign exchange risk; and, for common equity of companies with a small market capitalization, liquidity risk.

6. Assets Limited as to Use or Restricted (continued)

Alternative investments – Funds in this class are invested with external investment managers who invest primarily in various alternative categories, including real estate, long and short equity positions, merger and event arbitrage, natural resources, distressed credit, managed futures, fixed-income arbitrage, foreign exchange, and private equity. The managers employ various strategies, including long/short equity, event-driven, relative value, and tactical trading. A long/short equity strategy will take both long and short equity positions in publicly traded stocks to provide maximum capital appreciation, while limiting downside risk. Event-driven strategies deploy funds opportunistically across multiple asset categories seeking positive returns from companies involved in mergers, acquisitions, bankruptcy, litigation, regulatory uncertainty, and other matters with the potential to unlock value. Relative value funds use a variety of different strategies across a broad array of equity and fixed-income securities to take advantage of market inefficiencies between asset pairs, while maintaining a market-neutral risk position. Tactical trading strategies invest primarily in liquid markets, such as fixed-income and mortgage derivative securities, convertible debt, currencies, interest rate swaps, equity indices, and commodities and energy derivatives, while seeking to take advantage of changes in global economies and discrepancies among related sets of securities and derivatives resulting in asymmetrical outcomes. Investments in real estate include open-ended funds and partnership interests, both of which seek rental income and long-term appreciation. Private equity investments seek to provide capital to privately held companies to increase their value for a subsequent sale. These investments are domestic and international in nature and have varying degrees of illiquidity. The risks associated with these investments are numerous and include liquidity risk, market risk, event risk, interest rate risk, foreign exchange risk, and investment manager risk. In addition, the investment managers are not required to register with the Securities and Exchange Commission and are not subject to regulatory controls. As unregistered investment vehicles, these funds are not required to disclose the holdings in their portfolios to investors. Given the numerous risks involved, these funds have a greater likelihood of losing invested capital.

(Dollar Amounts in Thousands)

6. Assets Limited as to Use or Restricted (continued)

PHS had alternative investments representing various hedge funds and real asset investments that include limited liability companies and limited liability partnerships, as follows:

	December 31	
	2022	**2021**
Equity long/short	**$ 13,500**	$ 13,500
Event driven	**55,717**	50,164
Relative value	**46,700**	46,700
Tactical trading	**61,500**	58,109
Private equity	**52,996**	35,095
Real assets	**170,120**	156,856
Total cost basis	**400,533**	360,424
Unrealized gain, net	**152,557**	115,434
	$ 553,090	$ 475,858

At December 31, 2022, PHS had unfunded commitments for alternative investments totaling $230,483.

Investment income (loss) on assets limited as to use or restricted (excluding restricted by donor) consists of the following:

	Year Ended December 31	
	2022	**2021**
Interest and dividend income	**$ 58,588**	$ 57,734
Net realized (losses) gains on marketable securities	**(24,974)**	131,878
Total investment income	**33,614**	189,612
Net unrealized losses on marketable securities	**(370,922)**	(19,949)
Net unrealized gains on alternative investments	**37,123**	63,519
	$ (300,185)	$ 233,182

(Dollar Amounts in Thousands)

7. Fair Value Measurements

The following tables present the fair value hierarchy for PHS' financial assets and liabilities measured at fair value, and financial assets measured at NAV at December 31, 2022:

	Level 1	Level 2	Commingled Investments at NAV	Alternative Investments at NAV	Total Financial Instruments	Valuation Technique* (a, b, c, d)
Designated for long-term purposes						
Cash and cash equivalents	$ 19,338	$ –	$ –	$ –	$ 19,338	a
Government securities	268,998	164,192	–	–	433,190	a
Fixed-income securities	–	439,735	141,069	–	580,804	a, b, d
Equity securities	434,254	–	394,390	–	828,644	a, d
Alternative investments	–	–	–	496,343	496,343	d
Total designated for long-term purposes	$ 722,590	$ 603,927	$ 535,459	$ 496,343	$2,358,319	
Designated for self-insurance funds						
Cash and cash equivalents	$ 1,367	$ –	$ –	$ –	$ 1,367	a
Government securities	4,207	15,496	–	–	19,703	a
Fixed-income securities	–	27,533	12,716	–	40,249	a, b, d
Equity securities	25,081	–	41,919	–	67,000	a, d
Alternative investments	–	–	–	37,818	37,818	d
Total designated for self-insurance funds	$ 30,655	$ 43,029	$ 54,635	$ 37,818	$ 166,137	
Restricted by donors						
Cash and cash equivalents	$ 598	$ –	$ –	$ –	$ 598	a
Government securities	5,592	3,520	–	–	9,112	a
Fixed-income securities	–	9,511	3,024	–	12,535	a, b, d
Equity securities	9,379	–	8,454	–	17,833	a, d
Alternative investments	–	–	–	18,929	18,929	d
Total restricted by donors	$ 15,569	$ 13,031	$ 11,478	$ 18,929	$ 59,007	
Held by trustee						
Cash and cash equivalents	$ 92,388	$ –	$ –	$ –	$ 92,388	a
Restricted for statutory requirements						
Cash and cash equivalents	$ 7,018	$ –	$ –	$ –	$ 7,018	a
Government securities	3,047	79,722	–	–	82,769	a, b
Fixed-income securities	–	166,479	–	–	166,479	b
Total restricted for statutory requirements	$ 10,065	$ 246,201	$ –	$ –	$ 256,266	
Financial assets						
Interest rate swaps	$ –	$ 11,170	$ –	$ –	$ 11,170	b

*Valuation techniques are described in Note 2.

(Dollar Amounts in Thousands)

7. Fair Value Measurements (continued)

The following tables present the fair value hierarchy for PHS' financial assets and liabilities measured at fair value, and financial assets measured at NAV at December 31, 2021:

	Level 1	Level 2	Commingled Investments at NAV	Alternative Investments at NAV	Total Financial Instruments	Valuation Technique* (a, b, c, d)
Designated for long-term purposes						
Cash and cash equivalents	$ 13,603	$ –	$ –	$ –	$ 13,603	a
Government securities	249,705	85,637	–	–	335,342	a
Fixed-income securities	–	595,625	141,820	–	737,445	a, b, d
Equity securities	459,110	–	651,067	–	1,110,177	a, d
Alternative investments	–	–	–	435,342	435,342	d
Total designated for long-term purposes	$ 722,418	$ 681,262	$ 792,887	$ 435,342	$2,631,909	
Designated for self-insurance funds						
Cash and cash equivalents	$ 415	$ –	$ –	$ –	$ 415	a
Government securities	8,946	7,707	–	–	16,653	a
Fixed-income securities	–	36,284	11,855	–	48,139	a, b, d
Equity securities	26,305	–	59,703	–	86,008	a, d
Alternative investments	–	–	–	30,868	30,868	d
Total designated for self-insurance funds	$ 35,666	$ 43,991	$ 71,558	$ 30,868	$ 182,083	
Restricted by donors						
Cash and cash equivalents	$ 524	$ –	$ –	$ –	$ 524	a
Government securities	6,209	2,188	–	–	8,397	a
Fixed-income securities	–	15,311	3,624	–	18,935	a, b, d
Equity securities	11,840	–	16,636	–	28,476	a, d
Alternative investments	–	–	–	9,648	9,648	d
Total restricted by donors	$ 18,573	$ 17,499	$ 20,260	$ 9,648	$ 65,980	
Held by trustee						
Cash and cash equivalents	$ 145,538	$ –	$ –	$ –	$ 145,538	a
Restricted for statutory requirements						
Cash and cash equivalents	$ 3,269	$ –	$ –	$ –	$ 3,269	a
Government securities	62,218	72,310	–	–	134,528	a, b
Fixed-income securities	–	107,069	–	–	107,069	b
Total restricted for statutory requirements	$ 65,487	$ 179,379	$ –	$ –	$ 244,866	
Financial liabilities						
Interest rate swaps	$ –	$ (22,602)	$ –	$ –	$ (22,602)	b

*Valuation techniques are described in Note 2.

(Dollar Amounts in Thousands)

7. Fair Value Measurements (continued)

Derivative contracts related to marketable securities were reported as a net liability, as described in Note 2, of $540 and $228 as of December 31, 2022 and 2021, respectively, and were included within assets limited as to use on the accompanying combined balance sheets.

	Level 1	Level 2	Total Financial Instruments	Valuation Technique* (a, b, c, d)
December 31, 2022				
Derivative assets:				
Futures contracts	**$ 141,281**	**$ –**	**$ 141,281**	a
Interest rate swap agreements	**–**	**219,424**	**219,424**	b
Forward contracts	**–**	**35,195**	**35,195**	b
	$ 141,281	**$ 254,619**	**$ 395,900**	
Derivative liabilities:				
Futures contracts	**$ (141,244)**	**$ –**	**$ (141,244)**	a
Interest rate swap agreements	**–**	**(219,396)**	**(219,396)**	b
Forward contracts	**–**	**(35,800)**	**(35,800)**	b
	$ (141,244)	**$ (255,196)**	**$ (396,440)**	
December 31, 2021				
Derivative assets:				
Futures contracts	$ 182,159	$ –	$ 182,159	a
Interest rate swap agreements	–	187,382	187,382	b
Forward contracts	–	45,907	45,907	b
	$ 182,159	$ 233,289	$ 415,448	
Derivative liabilities:				
Futures contracts	$ (182,253)	$ –	$ (182,253)	a
Interest rate swap agreements	–	(187,561)	(187,561)	b
Forward contracts	–	(45,862)	(45,862)	b
	$ (182,253)	$ (233,423)	$ (415,676)	

*Valuation techniques are described in Note 2.

There were no changes in the fair value level classification, between Level 1 and Level 2, for any investments in 2022 or 2021. PHS has no Level 3 investments.

(Dollar Amounts in Thousands)

8. Property and Equipment, Net

Property and equipment, net, consist of the following:

	December 31	
	2022	**2021**
Land and improvements	**$ 150,061**	$ 144,980
Buildings and improvements	**1,365,523**	1,344,322
Equipment	**766,782**	740,873
Software	**390,770**	359,675
	2,673,136	2,589,850
Less accumulated depreciation and amortization	**(1,673,958)**	(1,564,585)
	999,178	1,025,265
Right-of-use assets	**2,638**	2,667
Construction-in-progress	**219,521**	176,529
	$ 1,221,337	$ 1,204,461

Unamortized software was $72,438 and $64,904 as of December 31, 2022 and 2021, respectively. Software amortization expense was $26,571 and $25,390 for the years ended December 31, 2022 and 2021, respectively, and is included in depreciation and amortization expense.

At December 31, 2022, PHS has future capital commitments of $17,136, which are expected to be completed in 2023.

9. Medical Claims Expense

As of December 31, 2022 and 2021, medical claims expense for prior years increased by $20,539 and decreased by $26,073 in 2022 and 2021, respectively, as a result of changes in estimates of prior periods' unpaid claims and claims adjustment expenses. These changes generally are the result of ongoing analyses of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

(Dollar Amounts in Thousands)

10. Long-Term Debt and Interest Rate Swaps

Long-term debt consisted of the following:

	December 31 2022	December 31 2021
2022 Presbyterian Healthcare Services Taxable Bonds, fixed-interest coupon rate of 4.875% payable semiannually on the established interest payment dates, principal due in 2052	**$ 315,925**	$ –
2019 Series A Hospital System Revenue Bonds (New Mexico Hospital Equipment Loan Council), fixed-interest coupon rates of 3.0% to 5.0% payable semiannually on the established interest payment dates, principal payments beginning in 2025 through 2048	**146,400**	146,400
2019 Series B Hospital System Revenue Bonds (New Mexico Hospital Equipment Loan Council), fixed-interest coupon rate of 5.0% payable semiannually on the established interest payment dates, principal payments beginning in 2025 through 2049	**75,000**	75,000
2019 Series C Taxable Hospital System Revenue Bonds (New Mexico Hospital Equipment Loan Council), variable rate demand bonds with an interest rate of 4.25% at December 31, 2022, payable monthly on the established interest payment dates, principal payments beginning in 2033 through 2042	**82,845**	82,845
2017 Series A Hospital System Revenue Bonds (New Mexico Hospital Equipment Loan Council), fixed-interest coupon rates of 3.5% to 5.0% payable semiannually on the established interest payment dates, principal payments through 2046	**237,070**	237,510
2017 Series B Taxable Hospital System Revenue Bonds (New Mexico Hospital Equipment Loan Council), fixed-interest coupon rate of 4.4% payable semiannually on the established interest payment dates, principal payments beginning in 2037 through 2046	**65,665**	65,665
2015 Series A Hospital System Revenue Bonds (New Mexico Hospital Equipment Loan Council), fixed-interest coupon rates from 4.125% to 5.000% payable semiannually on the established interest payment dates, principal payments through 2044	**–**	201,690
2008 Series B, C, and D Hospital System Revenue Bonds (New Mexico Hospital Equipment Loan Council), variable-rate demand bonds with interest rates of 3.65% to 3.90% at December 31, 2022, payable monthly on the established interest payment dates, principal payable in annual installments through 2034	**128,715**	139,865
2012 note payable to bank, variable rate, interest payable quarterly at one-month LIBOR plus 0.90% due October 2022	**–**	50,000
Other obligations	**4,080**	5,382
	1,055,700	1,004,357
Premiums on long-term debt, net	**34,404**	52,619
Less deferred financing fees	**(8,432)**	(7,713)
	1,081,672	1,049,263
Less current portion of long-term debt	**(12,476)**	(17,549)
	$ 1,069,196	$ 1,031,714

10. Long-Term Debt and Interest Rate Swaps (continued)

The 2022 Taxable Revenue Bonds totaling $315,925 were issued in May 2022. Proceeds of the bonds were used to repay the $50,000 taxable bank direct loan, repay a $100,000 short-term bank loan, and advance refund $175,130 of the 2015A Hospital System Revenue Bonds. The 2022 bonds are fixed-rate term bonds with a final maturity in 2052.

In connection with the 2022 Taxable Bonds a treasury-lock interest rate hedge was entered into in April 2022. The hedge was terminated at closing of the 2022 Taxable Bonds, which resulted in a payment to PHS of $23,493. Hedge accounting treatment was established for the treasury-lock and the payment was recorded in net assets without donor restriction on the accompanying combined balance sheets and is being amortized as an offset to interest expense over the 30-year life of the 2022 Taxable Bonds.

The 2019 Series A and B Revenue Bonds totaling $221,400 were issued through the New Mexico Hospital Equipment Loan Council in December 2019. Proceeds of the bonds were used primarily for the construction of a new patient tower on the Presbyterian main hospital campus in Albuquerque, New Mexico, which was opened in January 2023. The 2019 Series A Bonds are fixed rate and include serial bonds with annual maturities beginning in August 2025 through 2039 and term bonds with maturities beginning in August 2044 and 2048. The 2019 Series B Bonds are fixed-rate term bonds maturing in 2049 with an initial interest period ending August 1, 2025, at which time they are subject to mandatory tender or rate adjustment for a new interest period.

The 2019 Series C Taxable Revenue Bonds totaling $82,845 were issued through the New Mexico Hospital Equipment Loan Council in December 2019. Proceeds of the bonds were used to defease the 2012 Series A Revenue Bonds. The 2019 Series C Bonds are variable-rate demand obligations and bear interest on a daily rate period at amounts set by a remarketing agent. The interest rate mode can be modified under the terms of the legal documents. To secure the tender price of the 2019 Series C Bonds, PHS has entered into a standby bond purchase agreement with JPMorgan Chase Bank, N.A. with an expiration in December 2024. The 2019 Series C Bonds are subject to optional redemption at the discretion of PHS. In addition, the 2019 Series C Bonds have a schedule of mandatory sinking fund deposits in 2033 through 2042.

The 2017 Series A Revenue Bonds totaling $239,115 were issued through the New Mexico Hospital Equipment Loan Council in May 2017. Proceeds of the bonds were issued to defease the 2009 Series A Revenue Bonds and provide funding for the construction of a new hospital facility in Santa Fe, New Mexico, which opened in October 2018. The 2017 Series A bonds are fixed-rate bonds and have annual maturities that began in August 2018 and continue through 2046.

10. Long-Term Debt and Interest Rate Swaps (continued)

The 2017 Series B Taxable Revenue Bonds totaling $65,665 were issued through the New Mexico Hospital Equipment Loan Council in May 2017. Proceeds of the bonds were used to fund the construction of a physician office building adjacent to the new hospital in Santa Fe, New Mexico, and expand PHS' administrative office in Albuquerque, New Mexico. The 2017 Series B bonds are fixed rate bonds and have annual maturities beginning in August 2037 and continuing through 2046.

The 2015 Series A Revenue Bonds totaling $237,160 were issued through the New Mexico Hospital Equipment Loan Council. Proceeds of the bonds were used to defease the 2008 Series A Bonds and fund various health care facilities throughout the PHS system. The 2015 bonds are fixed-rate serial and term bonds and have scheduled maturities and mandatory sinking fund deposits that began in August 2016 and were scheduled to continue through 2044. In May 2022, $175,130 of the bonds were advance refunded with the 2022 Taxable Bonds. In December 2022 the remaining $20,440 of bonds were advance refunded with cash from operations.

In August 2012, PHS obtained a $50,000 taxable bank direct loan (the 2012 Bank Loan), of which $50,000 was outstanding as of December 31, 2021. Proceeds of the 2012 Bank Loan were used for a new system corporate office, which was completed in 2014. The loan was repaid in full in May 2022 with proceeds from the 2022 Taxable Revenue Bonds.

The 2008 Revenue Bonds were issued through the New Mexico Hospital Equipment Loan Council in four series (Series A, Series B, Series C, and Series D) (the Series 2008 Bonds) in November 2008. The Series 2008 Bonds were designed to defease the 2005 Series A and B Revenue Bonds ($201,895); to pay off a Wells Fargo Credit Agreement, which defeased the 2004 Series A through D Bonds ($128,655) and the 1993A Bonds ($17,900) during March and April 2008; to reimburse PHS for prior capital expenditures; and to pay certain costs of issuing the Series 2008 Bonds. The Series 2008 A Bonds were refunded in their entirety in 2015 and have been legally defeased. The Series 2008 B through D Bonds are variable-rate demand obligations and bear interest on a weekly (Series C and D) and daily (Series B) rate period at amounts set by a remarketing agent. The interest rate mode can be modified under the terms of the legal documents. To secure the tender price of the Series 2008 B Bonds, PHS has entered into a standby bond purchase agreement with JPMorgan Chase Bank, N.A. with an expiration in November 2023. The Series 2008 C and D Bonds are supported by standby bond purchase agreements with Wells Fargo Bank, N.A. with expiration dates in November 2025 and 2026, respectively.

(Dollar Amounts in Thousands)

10. Long-Term Debt and Interest Rate Swaps (continued)

The Series 2008 B, C, and D Bonds are further subject to optional redemption at the discretion of PHS. In addition, the Series 2008 Bonds have a schedule of mandatory sinking fund deposits through 2034.

Effective December 1, 2022, all of the variable rate 2008 Series B, Series C, and Series D bonds and the 2019 Series C bonds were purchased in lieu of redemption by PHS and reissued the same day under an amended Master Trust Indenture such that all outstanding bonds of the organization were under the same amended Master Trust Indenture, which, among other provisions, allows for alternative methods of calculating the debt service coverage ratio covenant.

All of the outstanding bonds are collateralized by a pledge of unrestricted receivables of the Obligated Group, as defined under the Master Trust Indenture. The Master Trust Indenture of the Obligated Group requires, among other things, that certain funds be established and held by a trustee. The Master Trust Indenture also requires certain limitations on additional indebtedness, liens on property, and disposition or transfers of assets, as well as the maintenance of certain cash balances and other financial ratios. The Obligated Group was in compliance with all such covenants at December 31, 2022.

Scheduled principal payments on long-term debt at December 31 are as follows:

2023	$ 12,476
2024	13,622
2025	15,426
2026	15,533
2027	15,235
Thereafter	983,408
	$ 1,055,700

10. Long-Term Debt and Interest Rate Swaps (continued)

Interest Rate Swaps

PHS has entered into several interest rate swaps associated with bond issuances, some of which have bonds that are no longer outstanding. The 2005 swaps provide that PHS receives a floating amount based on a percentage of one-month London Interbank Offered Rate (LIBOR) (58.30% of LIBOR plus 0.36%) and PHS pays a fixed rate of 3.085% based on a notional amount of $103,970 and $115,120 at December 31, 2022 and 2021, respectively.

The 2006 swaps provide that PHS receives a floating amount based on a percentage of one-month LIBOR (68%) and PHS pays a weighted average fixed rate of 3.577% based on a notional amount of $24,745 at both December 31, 2022 and 2021.

The 2019 swaps provide that PHS receives a floating amount based on one-month LIBOR and PHS pays a fixed rate of 1.96% on the notional amount of $82,845 at both December 31, 2022 and 2021.

All derivatives that are being measured by PHS under ASC 820 are considered Level 2 assets (liabilities) because a quoted price can be obtained from a number of dealer counterparties and other market sources based on observable interest rates and yield curves for the full term of the asset or liability. In order to measure the fair value of municipal derivatives under ASC 820, PHS adjusted its mid-market periodic values of the swaps outstanding to incorporate nonperformance risk by PHS (when the financial instrument is a liability) or the counterparty (when the financial instrument is an asset). In order to determine the risk of nonperformance when the financial instrument is a liability, PHS has determined the change in the credit market for debt issues by entities with the same credit characteristics as PHS. To determine nonperformance risk when the instrument is an asset, PHS determines the change in the credit market for debt issues by the counterparty.

As of December 31, 2022 and 2021, the fair value of the 2005 and 2006 swaps was a net liability of $4,429 and $17,786, respectively. As of December 31, 2022 and 2021, the fair value of the 2019 swap was an asset of $15,599 and a liability of $4,816, respectively. The combined net swap liability is included in other liabilities on the accompanying combined balance sheets.

10. Long-Term Debt and Interest Rate Swaps (continued)

If the liability related to the 2005 and 2006 swaps were to exceed $40,000, PHS would be required to post a cash deposit for amounts in excess of the threshold as collateral with the counterparty. This collateral threshold would be reduced to $30,000 if PHS' current AA credit rating were to fall to A+, reduced to $20,000 at a rating of A, and further reduced to zero at a credit rating below A. If the liability related to the 2019 swap were to exceed $75,000, PHS would be required to post a cash deposit for amounts in excess of the threshold as collateral with the counterparty. The collateral threshold would be reduced to $50,000 if PHS' current AA credit rating were to fall to A+, reduced to $30,000 at a rating of A, reduced to $15,000 at a rating of A-, and further reduced to zero at a credit rating below A-.

Interest expense included $2,968 and $5,660 in 2022 and 2021, respectively, related to net periodic payments to the counterparty.

Short-Term Borrowing

In April 2020, PHS obtained a $100,000 short-term bank loan as additional working capital in response to the COVID-19 pandemic. The borrowing is secured under the terms of the Master Trust Indenture of the Obligated Group. In January 2022, the loan was renewed with a maturity date of January 27, 2023, at a fixed rate of 1.45% and was repaid without penalty in May 2022 with proceeds from the 2022 Taxable Bonds.

11. Employee Benefit Plans

PHS has a defined benefit pension plan (the original plan) that previously covered substantially all of the employees of its related organizations, except employees of PNI. Effective January 1, 2006, the original plan was closed to new entrants, but it continued to accrue benefits for those employees in the plan as of December 31, 2005 until December 31, 2012, when the original plan was amended to cease future benefit accruals. Any benefits earned by participants under the original plan at December 31, 2012, will be preserved and will be payable based on the original plan's provisions.

In December 2018, certain participants in the original plan were removed from the original plan through lump-sum payments and annuities. Remaining participants in the original plan were transferred to a new ongoing plan (Plan I) and the original plan was terminated.

(Dollar Amounts in Thousands)

11. Employee Benefit Plans (continued)

PHS contributes such amounts as necessary on an actuarial basis to provide Plan I with assets sufficient to meet the benefits to be paid to Plan I participants. PHS contributed $9,657 and $33,503 in 2022 and 2021, respectively, to Plan I.

A summary of Plan I's benefit obligation, assets, and funded status is as follows:

	Year Ended December 31	
	2022	**2021**
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 407,722**	$ 422,122
Service cost	**2,100**	2,400
Interest cost	**12,188**	11,522
Actuarial gain	**(105,035)**	(14,633)
Benefits paid and plan expenses	**(15,593)**	(13,689)
Benefit obligation at end of year	**301,382**	407,722
Change in assets:		
Fair value of assets at beginning of year	**257,370**	220,009
Actual return on assets	**(46,524)**	17,547
Employer contribution	**9,657**	33,503
Benefits paid and plan expenses	**(15,593)**	(13,689)
Fair value of plan assets at end of year	**204,910**	257,370
Funded status at year-end	**$ (96,472)**	$ (150,352)
Amounts not yet reflected in net periodic benefit cost and included in net assets:		
Accumulated loss	**$ (103,700)**	$ (152,361)
Cumulative changes in net assets without donor restriction	**(103,700)**	(152,361)
Cumulative employer contributions in excess of net periodic benefit cost	**7,228**	2,009
Net amount recognized on the combined balance sheets	**$ (96,472)**	$ (150,352)

(Dollar Amounts in Thousands)

11. Employee Benefit Plans (continued)

The actuarial gain recorded in 2022 was primarily due to the change in discount rate from 3.04% to 5.63%. This change decreased the benefit obligation by $114,700 in 2022.

There was no settlement charge in 2022 or 2021.

A summary of the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets is as follows:

	2022	2021
Projected benefit obligation	**$ 301,382**	$ 407,722
Accumulated benefit obligation	**301,382**	407,722
Fair value of plan assets	**204,910**	257,370

Assumptions used to determine the benefit obligation as of the measurement date are as follows:

	2022	2021
Discount rate at end of year	**5.63%**	3.04%
Rate of increase in compensation levels	**N/A**	N/A

Net periodic pension benefit cost includes the following components:

	2022	2021
Service cost – benefits earned during the year	**$ 2,100**	$ 2,400
Interest cost on projected benefit obligation	**12,188**	11,522
Expected return on Plan I assets	**(15,577)**	(13,676)
Amortization of prior service credit	**1,535**	1,535
Recognized net actuarial loss	**4,192**	4,956
	$ 4,438	$ 6,737

(Dollar Amounts in Thousands)

11. Employee Benefit Plans (continued)

Assumptions used to determine net periodic pension benefit cost are as follows:

	2022	2021
Discount rate at beginning of year	**3.04%**	2.77%
Rate of increase in compensation levels	**N/A**	N/A
Expected long-term rate of return on assets at beginning of year	**6.50%**	6.00%

Contributions to be made during 2023 have not been finalized but are expected to be approximately $33,093.

The expected return on Plan I assets has been developed using both historical and future expected returns for each asset class. Based on the target asset mix, PHS selected a long-term rate of return of 8.0% and 6.5% for 2022 and 2021, respectively. The asset allocation for Plan I, by asset class at the measurement date, was as follows:

	2022	2021
Cash and cash equivalents	**1%**	1%
Fixed-income securities	**41**	43
Common stock and equity	**38**	40
Absolute return, hedge funds, and other	**20**	16
	100%	100%

Plan I assets have historically been invested in a portfolio designed to preserve principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. Diversification is achieved by retaining multiple investment managers with complementary philosophies, styles, and approaches.

(Dollar Amounts in Thousands)

11. Employee Benefit Plans (continued)

Plan I asset allocation targets at the measurement date were as follows:

	Target	Range
Cash and cash equivalents	1%	0%–6%
Fixed-income securities	44%	39%–49%
Domestic equity securities	20%	15%–25%
International equity securities	20%	15%–25%
Other	15%	7%–25%

The following tables present the fair value hierarchy for PHS' Plan I financial assets and liabilities measured at fair value and financial assets measured at NAV:

	Level 1	Level 2	Commingled Investments at NAV	Alternative Investments at NAV	Total	Valuation Techniques* (a, b, c, d)
December 31, 2022						
Money market	**$ 1,555**	**$ –**	**$ –**	**$ –**	**$ 1,555**	a
Bond funds	**4,530**	**26,973**	**52,800**	**–**	**84,303**	a, b, d
Common equities	**34,423**	**–**	**44,312**	**–**	**78,735**	a, d
Alternative investments	**–**	**–**	**–**	**40,317**	**40,317**	d
	$ 40,508	**$ 26,973**	**$ 97,112**	**$ 40,317**	**$ 204,910**	
December 31, 2021						
Money market	$ 2,058	$ –	$ –	$ –	$ 2,058	a
Bond funds	2,210	38,740	68,853	–	109,803	a, b, d
Common equities	43,265	–	59,842	–	103,107	a, d
Alternative investments	–	–	–	42,402	42,402	d
	$ 47,533	$ 38,740	$ 128,695	$ 42,402	$ 257,370	

*Valuation techniques are described in Note 2.

There were no changes in the fair value level classification, between Level 1 and Level 2, for any investments in 2022 or 2021. PHS has no Level 3 investments.

(Dollar Amounts in Thousands)

11. Employee Benefit Plans (continued)

Plan I's alternative investments are composed of a hedge fund-of-funds and a private real estate investment fund. As described in Note 2, management has elected to use the NAV per share, or its equivalent, as a practical expedient for the fair value of Plan I's interest in alternative investments. The underlying funds have restrictions on the timing of withdrawals, which may reduce liquidity from three to six months.

Expected benefits to be paid to the Plan I participants and beneficiaries are as follows:

2023	$ 15,899
2024	17,314
2025	18,275
2026	19,039
2027	20,098
2028–2032	109,634

In addition to Plan I, PHS also has five other limited postretirement benefit plans subject to the funded status recognition provisions of ASC 715. Plan I is funded, and the other postretirement plans are unfunded. As a result of changes in pension obligations, net assets without donor restrictions increased by $53,429 and $25,797 during 2022 and 2021, respectively.

PHS has a defined contribution plan (Plan II), which consists of a Section 403(b) plan and a Section 401(a) plan under the Code. Plan II requires PHS to pay a basic employer contribution, as well as match participant contributions up to a stated maximum percentage of the participant's salary. Contributions to Plan II are expensed as earned by employees and were $37,808 and $35,282 in 2022 and 2021, respectively.

PHP has a 401(k) defined contribution plan (Plan III) for PHP employees. Plan III requires PHP to match participant contributions up to a stated maximum percentage of the participant's salary. Plan III additionally provides an employer contribution for all employees regardless of whether the employee individually contributes to Plan III. PHP contributions to Plan III are expensed as earned by employees and were $6,435 and $5,963 in 2022 and 2021, respectively.

(Dollar Amounts in Thousands)

12. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

	December 31 2022	December 31 2021
Subject to expenditure for specific purpose		
Program services and facility improvements	**$ 40,672**	$ 47,593
Education	**5,119**	6,108
	45,791	53,701
Subject to PHS' spending policy and appropriation		
Investment in perpetuity (including amounts above original gift amount) that once appropriated is expendable to support:		
Program services and facility improvements	**12,588**	12,459
Education	**1,994**	1,909
	14,582	14,368
	$ 60,373	$ 68,069

Net assets with donor restrictions are composed of the following:

	December 31 2022	December 31 2021
Marketable securities	**$ 58,317**	$ 65,173
Pledges receivable	**1,366**	2,089
Other	**690**	807
	$ 60,373	$ 68,069

(Dollar Amounts in Thousands)

13. Concentration of Credit Risk

PHS provides health care services through its inpatient and outpatient care facilities throughout New Mexico. PHS grants credit to patients, most of whom are insured under third-party payor agreements, without requiring collateral or other security in extending credit to patients. However, PHS routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, HMOs, and commercial insurance policies). The following table summarizes the percentage of net patient accounts receivable from all payors:

	December 31	
	2022	**2021**
Managed care and other third-party payors	**68%**	66%
Government	**26**	27
Self-pay	**6**	7
	100%	100%

Managed care and other third-party payors consist of receivables from various payors, including contracted third-party payors providing commercial and government programs. Management does not believe there is any significant concentration of credit risk associated with accounts receivable. Furthermore, management continually monitors and adjusts its allowances (contractual and implicit price concessions) associated with these receivables.

14. Commitments and Contingencies

Litigation and Other Contingent Liabilities

PHS is subject to pending and threatened legal actions arising during the ordinary course of business. Management and legal counsel periodically assess whether losses have been incurred related to pending or threatened litigation, claims, and assessments. Loss estimates are continually monitored and reviewed, and as estimates are adjusted, changes in estimated losses are reflected in current operations. Losses incurred due to the actual results of litigation could differ from estimates recorded. In management's opinion, upon consultation with legal counsel, these matters should not have a material adverse effect on PHS' combined financial condition, results of operations, or cash flows. However, PHS' evaluation of the likely effects of these actions could

14. Commitments and Contingencies (continued)

change in the future, and an unfavorable outcome, depending upon the amount and timing, could have a material effect on PHS' combined financial condition, results of operations, or cash flows of a future period.

Health Care Regulatory Environment

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in exclusion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed and paid. Management believes that it has established adequate reserves to investigate, defend, and ultimately resolve any alleged instances of noncompliance. Compliance with such laws and regulations can be subject to future government review, as well as regulatory actions unknown or unasserted at this time.

Self-Insurance Plans

PHS is self-insured for professional and general liability, workers' compensation, and employee health insurance. PHS purchases claims-made insurance to cover professional liability and workers' compensation claims in excess of the self-insured limits. There are known claims and incidents that may result in the assertion of additional claims, as well as claims for unknown incidents that may be asserted arising from services provided to patients. PHS has engaged independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. At December 31, 2022 and 2021, accrued professional liability, general liability, and workers' compensation losses of $289,996 and $285,694, respectively, have been discounted at 4.19% and 1.76%, respectively. In management's opinion, such amounts provide an adequate reserve for loss contingencies. The increase in the accrued liability can be attributed to adverse claim development. The accrued liability relating to professional and general liability and workers' compensation at December 31, 2022 and 2021, is reported on a gross basis and, therefore, has not been reduced by estimated insurance recoveries of $138,390 and $143,644, respectively, which are reported in other assets. The accrued liability for estimated employee health claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported and totaled $2,241 and $4,426 at December 31, 2022 and 2021, respectively.

(Dollar Amounts in Thousands)

14. Commitments and Contingencies (continued)

At December 31, 2022 and 2021, PHS had an available line of credit to collateralize workers' compensation coverage of $14,462, of which none was outstanding.

Surety Bond

The Medicaid Centennial Care contract requires PHP to provide a performance bond equal to 90% of the average of the past three months' capitation payments made to PHP from HSD. As of both December 31, 2022 and 2021, PHP held a surety bond issued by an unrelated insurance company in the amount of $250,000.

15. Functional Expenses

PHS provides general health care services to residents within its geographic region. PHS allocates expenses between functional categories through an analysis of each accounting unit within the organization. Accounting units with expenses that are attributable to more than one functional category, such as depreciation, information technology, and insurance, are allocated ratably, based on directly assigned expenses, across all categories. Expenses related to providing these services are as follows:

	Patient Care	Insurance Operations	Other Programs	Supporting Services	Total
Year ended December 31, 2022					
Medical claims	**$ –**	**$ 2,607,230**	**$ –**	**$ –**	**$ 2,607,230**
Salaries, wages, and benefits	**962,835**	**181,808**	**167,202**	**189,385**	**1,501,230**
Purchased services and other	**266,331**	**454,054**	**90,902**	**47,143**	**858,430**
Supplies	**448,495**	**1,164**	**26,632**	**(3,431)**	**472,860**
Professional fees	**34,054**	**7**	**9,637**	**8,336**	**52,034**
Depreciation and amortization	**71,351**	**19,705**	**17,113**	**17,949**	**126,118**
Interest	**651**	**272**	**33,113**	**1,334**	**35,370**
	$ 1,783,717	**$ 3,264,240**	**$ 344,599**	**$ 260,716**	**$ 5,653,272**
Year ended December 31, 2021					
Medical claims	$ –	$ 2,387,158	$ –	$ –	$ 2,387,158
Salaries, wages, and benefits	848,040	167,013	147,961	181,739	1,344,753
Purchased services and other	259,017	301,649	113,861	15,654	690,181
Supplies	404,001	673	18,800	(5,210)	418,264
Professional fees	19,881	4	9,870	8,440	38,195
Depreciation and amortization	69,860	16,046	17,921	16,637	120,464
Interest	672	356	33,542	205	34,775
	$ 1,601,471	$ 2,872,899	$ 341,955	$ 217,465	$ 5,033,790

(Dollar Amounts in Thousands)

16. Liquidity

PHS' financial assets available within one year of the balance sheet date for general expenditure are as follows:

	December 31	
	2022	**2021**
Cash and cash equivalents	**$ 395,585**	$ 474,550
Patient accounts receivable	**201,761**	182,905
Other accounts receivable	**318,411**	291,054
Assets limited as to use	**2,237,222**	2,533,049
	$ 3,152,979	$ 3,481,558

PHS has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, PHS invests cash in excess of daily requirements in short-term investments, which are included in cash and cash equivalents on the accompanying combined balance sheets.

17. Income Taxes

The components of the provision for income taxes are as follows:

	Year Ended December 31	
	2022	**2021**
Current	**$ 23,463**	$ 38,959
Deferred	**(21,069)**	2,687
	$ 2,394	$ 41,646

(Dollar Amounts in Thousands)

17. Income Taxes (continued)

The differences between the actual and expected provision for income taxes or benefit computed by applying the federal corporate income tax rate of 21.0% in 2022 and 2021, plus a state rate of 4.8% for PNI operations only, to income before income taxes are as follows:

	Year Ended December 31	
	2022	**2021**
Computed tax expense at combined rate	**$ 2,570**	$ 39,518
Change in valuation allowance	**(47)**	237
Other permanent differences	**(38)**	703
Provision to return differences	**(105)**	(235)
State taxes and other	**14**	1,423
	$ 2,394	$ 41,646

(Dollar Amounts in Thousands)

17. Income Taxes (continued)

Deferred tax assets (liabilities) were included within accrued liabilities on the accompanying combined balance sheets and were composed of the following:

	December 31	
	2022	**2021**
Deferred tax assets:		
Medical liabilities and other reserves	**$ 9,051**	$ 6,056
Medical claims payable (incurred but not reported)	**1,223**	1,171
Deferred compensation	**1,003**	1,416
Investments	**416**	416
Net operating loss carryforwards	**4,265**	4,313
Deferred intercompany loss	**8,342**	8,342
Premium deficiency reserve	**3,512**	2,031
Other	**3,825**	3,604
	31,637	27,349
Deferred tax liabilities:		
Amortization of intangibles	**(13,437)**	(13,437)
Partnership – book/tax difference	**(7,926)**	(8,537)
Gains on sale of securities	**(144)**	(415)
Unrealized gains on investments	**(1,417)**	(17,353)
Prepaid insurance	**(86)**	–
Total deferred tax liabilities	**(23,010)**	(39,742)
Valuation allowance	**(12,826)**	(12,873)
	$ (4,199)	$ (25,266)

At December 31, 2022 and 2021, PNI had no federal net operating loss carryforwards. PNI is subject to state income tax and has state net operating loss carryforwards at December 31, 2022 and 2021, of $91,511 and $92,537, respectively, of which a portion begins to expire in 2033.

At December 31, 2022 and 2021, a valuation allowance in the amount of $12,826 and $12,873, respectively, was established against the deferred tax asset related to the state net operating loss carryforwards, capital loss carryforwards, and deferred intercompany loss as management currently believes that the benefit from some or all of these deferred tax assets may not be realized.

17. Income Taxes (continued)

In the normal course of business, PNI is subject to examination by taxing authorities, and PNI is no longer subject to U.S. federal, state, or local income tax examinations for years before 2018. PNI does not have any current federal tax disputes.

18. COVID-19

A variety of federal, state, and local efforts have been initiated in response to the COVID-19 pandemic, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act is a federal stimulus package designed to provide emergency assistance to individuals and businesses, including hospitals and other health care providers. PHS has received approximately $15,540 and $1,394 in Provider Relief Funds from the CARES Act to cover unreimbursed health-care-related expenses attributable to the public health emergency and lost revenue resulting from the COVID-19 pandemic for the years ended December 31, 2022 and 2021, respectively. PHS recognized $15,900 and $18,877 in CARES Act revenue within other operating revenue for the years ended December 31, 2022 and 2021, respectively. PHS follows grant accounting to recognize the stimulus funding as other operating revenue based on guidance from the U.S. Department of Health & Human Services. In 2021, the American Rescue Plan Act (ARPA) was passed, which included funding for rural health care providers. PHS received and recognized $18,067 of ARPA revenue for the year ended December 31, 2021. No such funding was received in 2022.

PHS has also recognized revenue for COVID-19-related projects obligated through the Federal Emergency Management Agency (FEMA) as well as other COVID-19-related grants. PHS recognized revenue from FEMA, and other COVID-19-related grants, of $30,844 and $7,156 for the years ended December 31, 2022 and 2021, respectively. In addition, PHS received $10,818 of Medicare Advance and Accelerated Payments, recorded in accrued liabilities as of December 30, 2020, to help support liquidity needs in the short term. The advance payments were fully repaid in 2021. The CARES Act also allows for deferred payment of the employer portion of certain payroll taxes between March 27, 2020 and December 31, 2021, with 50% due December 31, 2021, and the remaining 50% due December 31, 2022. As of December 31, 2022, PHS had fully repaid these payroll taxes.

19. Subsequent Events

PHS has evaluated subsequent events occurring between the most recent year-end and April 20, 2023, the date the accompanying combined financial statements were issued. PHS and Midwest-based health system UnityPoint Health have signed a letter of intent to explore the formation of a new health care organization. The proposed health care company would see both systems preserve their trusted brand and continue delivering care locally while collectively achieving administrative efficiencies under a parent organization. Both systems are in a period of greater evaluation and exploration of next steps toward a definitive agreement and regulatory approvals.

Supplementary Information

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Report of Independent Auditors on Supplementary Information

The Board of Directors
Presbyterian Healthcare Services

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying combining balance sheet and statement of operations for the year ended December 31, 2022 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

April 20, 2023

Presbyterian Healthcare Services and Affiliates

Combining Balance Sheet

December 31, 2022

	Obligated Group	Presbyterian Network, Inc.	Other Non-Obligated Group Members	Eliminations	Combined
			(In Thousands)		
Assets					
Current assets:					
Cash and cash equivalents	$ 127,469	$ 259,804	$ 8,312	$ –	$ 395,585
Accounts receivable	263,155	–	18,594	(79,988)	201,761
Other receivables	55,763	263,560	4,765	(5,677)	318,411
Inventories, prepaid expenses, and other current assets	57,667	17,562	3,302	–	78,531
Total current assets	504,054	540,926	34,973	(85,665)	994,288
Assets limited as to use or restricted:					
Designated for long-term purposes	1,741,849	615,657	813	–	2,358,319
Designated for self-insurance funds	166,137	–	–	–	166,137
Restricted by donors	59,007	–	–	–	59,007
Held by trustee	92,388	–	–	–	92,388
Restricted for statutory requirements	–	256,266	–	–	256,266
	2,059,381	871,923	813	–	2,932,117
Property and equipment, net	1,032,187	66,316	122,834	–	1,221,337
Goodwill	200	52,501	55,341	–	108,042
Other assets	291,851	(7,563)	202,894	(158,738)	328,444
Total assets	$ 3,887,673	$ 1,524,103	$ 416,855	$ (244,403)	$ 5,584,228

Presbyterian Healthcare Services and Affiliates

Combining Balance Sheet (continued)

	Obligated Group	Presbyterian Network, Inc.	Other Non-Obligated Group Members	Eliminations	Combined
			(In Thousands)		
Liabilities and net assets					
Current liabilities:					
Accounts payable	$ 79,483	$ 15,889	$ 6,641	$ (209)	$ 101,804
Due under Medicaid contract	–	185,477	–	–	185,477
Accrued liabilities	156,256	213,805	12,456	(8,620)	373,897
Medical claims payable	–	476,964	–	(79,988)	396,976
Estimated third-party payor settlements	10,331	–	908	–	11,239
Current portion of long-term debt	12,605	–	966	(1,095)	12,476
Total current liabilities	258,675	892,135	20,971	(89,912)	1,081,869
Long-term debt, net of current portion	1,067,700	–	4,491	(2,995)	1,069,196
Employee benefit plans	155,512	–	–	–	155,512
Self-insurance plans	292,196	–	–	–	292,196
Other liabilities	82,489	13,689	23,913	(16,725)	103,366
Total liabilities	1,856,572	905,824	49,375	(109,632)	2,702,139
Net asset without donor restrictions:					
Attributable to Presbyterian Healthcare Services	1,970,728	618,279	314,815	(134,771)	2,769,051
Attributable to noncontrolling interests	–	–	52,665	–	52,665
Net assets without donor restrictions	1,970,728	618,279	367,480	(134,771)	2,821,716
Net asset with donor restrictions	60,373	–	–	–	60,373
Total net assets	2,031,101	618,279	367,480	(134,771)	2,882,089
Total liabilities and net assets	$ 3,887,673	$ 1,524,103	$ 416,855	$ (244,403)	$ 5,584,228

Presbyterian Healthcare Services and Affiliates

Combining Statement of Operations

Year Ended December 31, 2022

	Obligated Group	Presbyterian Network, Inc.	Other Non-Obligated Group Members	Eliminations	Combined
			(In Thousands)		
Operating revenues:					
Net premiums	$ –	$ 4,081,395	$ –	$ –	$ 4,081,395
Net patient service revenue	1,957,443	–	154,696	(775,502)	1,336,637
Other operating revenues	150,272	64,453	8,922	(93,847)	129,800
Total operating revenues	2,107,715	4,145,848	163,618	(869,349)	5,547,832
Expenses:					
Medical claims	–	3,399,951	–	(792,721)	2,607,230
Salaries, wages, and employee benefits	1,264,651	181,808	59,680	(4,909)	1,501,230
Purchased services and other	438,998	454,054	37,273	(71,895)	858,430
Supplies	437,672	1,164	34,024	–	472,860
Professional fees	48,796	7	3,231	–	52,034
Depreciation and amortization	94,791	19,705	11,622	–	126,118
Interest	33,450	272	1,648	–	35,370
Total expenses	2,318,358	4,056,961	147,478	(869,525)	5,653,272
Operating (loss) income	(210,643)	88,887	16,140	176	(105,440)
Other (loss) income:					
Investment income	32,995	(763)	1,382	–	33,614
Change in net unrealized (loss) gain on investments	(257,912)	(75,887)	–	–	(333,799)
Gain on debt extinguishment	4,906	–	–	–	4,906
Loss on ASC sale	(944)	–	–	–	(944)
Change in fair value of interest rate swaps	33,837	–	–	–	33,837
Total other (loss) income	(187,118)	(76,650)	1,382	–	(262,386)
Excess of revenues over expenses before income taxes	(397,761)	12,237	17,522	176	(367,826)
Provision (benefit) for income taxes	64	2,702	(372)	–	2,394
(Deficiency) excess of revenues over expenses	(397,825)	9,535	17,894	176	(370,220)
Less excess of revenues over expenses attributable to noncontrolling interests	–	–	(6,427)	–	(6,427)
(Deficiency) excess of revenues over expenses attributable to Presbyterian Healthcare Services	$ (397,825)	$ 9,535	$ 11,467	$ 176	$ (376,647)

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