Consolidated Financial Statements and Supplementary Information

Northern Arizona Healthcare Corporation and Affiliates
Years Ended June 30, 2023 and 2022
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Northern Arizona Healthcare Corporation and Affiliates

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2023 and 2022

Contents

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Report of Independent Auditors

Management and the Board of Directors
Northern Arizona Healthcare Corporation

Opinion

We have audited the consolidated financial statements of Northern Arizona Healthcare Corporation and Affiliates (Northern Arizona Healthcare Corporation), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, 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 Northern Arizona Healthcare Corporation at June 30, 2023 and 2022, and the results of its operations 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 Northern Arizona Healthcare Corporation, 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 Northern Arizona Healthcare Corporation'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.

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 Northern Arizona Healthcare Corporation'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 Northern Arizona Healthcare Corporation's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying consolidating statement of financial position and consolidating statement of activities is presented for purposes of additional analysis and is 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

October 26, 2023

Northern Arizona Healthcare Corporation and Affiliates

Consolidated Statements of Financial Position

(In Thousands)

	Year Ended June 30	
	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	**$ 73,971**	$ 94,181
Accounts receivable, net	**138,535**	120,089
Inventories	**15,709**	14,565
Prepaid expenses and other assets	**22,469**	21,048
Total current assets	**250,684**	249,883
Assets whose use is limited	**679,089**	717,193
Property and equipment, net	**321,460**	309,917
Finance lease right-of-use	**4,019**	4,660
Operating lease right-of-use	**39,937**	28,206
Deferred charges and other assets	**37,372**	41,560
Total assets	**$ 1,332,561**	$ 1,351,419
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 34,359**	$ 32,755
Accrued expenses	**35,351**	48,913
Finance lease liabilities, current	**1,355**	1,345
Operating lease liabilities, current	**5,485**	4,006
Deferred revenue	**1,829**	29,297
Current portion of long-term debt	**8,141**	7,795
Third-party payor settlements	**2,571**	3,317
Total current liabilities	**89,091**	127,428
Long-term debt, less current portion	**165,911**	174,636
Finance lease liabilities, noncurrent	**2,664**	3,313
Operating lease liabilities, noncurrent	**35,004**	24,198
Accrued pension liability	**15,192**	25,764
Other liabilities	**10,061**	10,469
Total liabilities	**317,923**	365,808
Net assets:		
Without donor restrictions	**1,011,595**	985,611
With donor restrictions	**3,043**	–
Total net assets	**1,014,638**	985,611
Total liabilities and net assets	**$ 1,332,561**	$ 1,351,419

See accompanying notes.

Northern Arizona Healthcare Corporation and Affiliates

Consolidated Statements of Activities

(In Thousands)

	Year Ended June 30	
	2023	**2022**
Revenue:		
Net patient service revenue	**$ 712,317**	$ 734,492
Other operating revenue	**23,410**	39,720
Total revenues	**735,727**	774,212
Expenses:		
Salaries and wages	**361,151**	358,466
Employee benefits	**63,855**	57,512
Professional fees	**49,715**	42,360
Supplies, services, and other	**274,054**	267,691
Depreciation and amortization	**37,403**	34,468
Interest	**5,529**	4,815
Total expenses	**791,707**	765,312
(Deficiency) income from operations	**(55,980)**	8,900
Other income (expense):		
Investment gain (loss), net	**56,374**	(96,455)
Other income (expense), net	**15,108**	(869)
Excess (deficiency) of revenues over expenses	**$ 15,502**	$ (88,424)

See accompanying notes.

Northern Arizona Healthcare Corporation and Affiliates

Consolidated Statements of Changes in Net Assets
(In Thousands)

	Year Ended June 30	
	2023	**2022**
Net assets without donor restrictions:		
Excess (deficiency) of revenues over expenses	**$ 15,502**	$ (88,424)
Pension-related changes other than net periodic pension cost	**10,482**	4,684
Increase (decrease) increase in net assets without donor restrictions	**25,984**	(83,740)
Net assets with donor restrictions:		
Contributions received	**3,043**	–
Increase in net assets with donor restrictions	**3,043**	–
Increase (decrease) in net assets	**29,027**	(83,740)
Net assets, beginning of year	**985,611**	1,069,351
Net assets, end of year	**$ 1,014,638**	$ 985,611

See accompanying notes.

Northern Arizona Healthcare Corporation and Affiliates

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended June 30	
	2023	**2022**
Operating activities		
Increase (decrease) in net assets	**$ 29,027**	$ (83,740)
Adjustments to reconcile increase (decrease) in net assets		
to net cash provided by (used in) operating activities:		
Decrease in investments designated as trading	**38,104**	97,000
Net (gain) loss on disposal of fixed assets	**(176)**	918
Net loss on extinguishment of debt	**–**	579
Depreciation and amortization	**37,403**	34,468
Donor restricted contributions	**(3,043)**	–
Net changes in operating assets and liabilities,		
exclusive of cash and cash equivalents:		
Accounts receivable	**(18,446)**	(16,693)
Inventories and other current assets	**(2,012)**	(418)
Deferred charges and other noncurrent assets	**4,141**	(2,971)
Accrued expenses and other	**(13,562)**	(2,960)
Deferred revenue	**(27,468)**	(55,428)
Accounts payable and third-party payor settlements	**858**	8,198
Accrued pension liability	**(10,572)**	(13,854)
Other liabilities	**(408)**	(1,659)
Net cash provided by (used in) operating activities	**33,846**	(36,560)
Investing activities		
Purchases of property, plant and equipment	**(47,961)**	(39,610)
Net cash used in investing activities	**(47,961)**	(39,610)
Financing activities		
Proceeds from long-term debt	**–**	29,825
Principal payments on finance leases	**(759)**	(1,607)
Payments on long-term debt	**(8,379)**	(39,000)
Donor restricted contributions	**3,043**	–
Net cash used in financing activities	**(6,095)**	(10,782)
Decrease in cash and cash equivalents	**(20,210)**	(86,952)
Cash and cash equivalents, beginning of year	**94,181**	181,133
Cash and cash equivalents, end of year	**$ 73,971**	$ 94,181
Supplemental disclosures of cash flow information		
Cash paid for interest	**$ 6,333**	$ 5,203
Non cash operating activities		
Noncash lease recogniton of new lease	**$ 17,102**	$ 708

See accompanying notes.

1. Organization

Description of Business

Northern Arizona Healthcare Corporation (NAHC) is a not-for-profit tax-exempt corporation that provides administrative and other services to its affiliated organizations. NAHC controls the activities of the following wholly owned affiliates (collectively, the Corporation):

- Flagstaff Medical Center (FMC), a not-for-profit tax-exempt corporation located in Flagstaff, Arizona, provides general medical and surgical acute care, behavioral health care through inpatient and outpatient settings, and a comprehensive array of quality outpatient services.

- Verde Valley Medical Center (VVMC), a not-for-profit tax-exempt corporation located in Cottonwood, Arizona, provides general medical and surgical acute care, inpatient behavioral health care, and a full range of quality outpatient services.

- Northern Arizona Healthcare Orthopedic Surgery Center, LLC (NAHOSC) is an ambulatory surgery center and recovery care center that provides outpatient surgical services.

- PathfinderHealth, LLC (PathfinderHealth) is a Clinical Integrated Network consisting of an integrated network of providers that work together to redesign the delivery of care to achieve high quality and efficient care coordination. NAHC is the sole member of PathfinderHealth.

Mission Statement

The primary mission of the Corporation is to improve the health of the people and communities that the Corporation serves. In short, the mission is “Improving health, healing people.”

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of NAHC and each of its wholly owned affiliates. All intercompany accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less when purchased, excluding amounts whose use is limited by the Corporation's Board of Directors designation or other contractual arrangements.

Custodial Credit Risk Deposits

The Corporation maintains bank deposit accounts that are insured by the Federal Deposit Insurance Corporation up to a limit of $250,000 per depositor. The Corporation had cash balances of $72,471,000 and $92,931,000 that were above the insured limit at June 30, 2023 and 2022, respectively.

Fair Value of Financial Instruments

Carrying value of financial instruments classified as current assets and current liabilities approximates fair value, based on the liquidity of these financial instruments and the short-term maturities of these instruments. The fair values of other financial instruments are disclosed in their respective notes.

2. Summary of Significant Accounting Policies (continued)

Net Accounts Receivable

Net patient accounts receivable and net patient service revenue are stated at estimated net realizable amounts from patients, third-party payors and other insurers to which the Corporation expects to be entitled in exchange for providing patient care, inclusive of an estimated allowance for implicit price concession. These estimated amounts are subject to further adjustments upon review by third-party payors. Management periodically reviews the adequacy of the implicit price concessions based on historical experience, trends in healthcare coverage, and other collection indicators.

Inventories

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

Assets Whose Use is Limited

Assets whose use is limited include investments set aside and designated for use by the Board of Directors, such as for future capital improvements or for other designated purposes.

The Corporation invests in various investment securities that are recorded at fair value on the accompanying consolidated statements of financial position (see Note 5). The Corporation has determined that all investments held at June 30, 2023 and 2022 are designated as trading securities. Accordingly, investment income, including realized gains and losses on investments, unrealized gains and losses on investments, and interest and dividends, are included in excess (deficiency) of revenues over expenses, unless the income or loss is restricted by donor or law.

The Corporation’s investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

2. Summary of Significant Accounting Policies (continued)

As of June 30, 2023 and 2022, the Corporation has recorded within assets whose use is limited $76,212,000 and $86,441,000, respectively, in alternative investments. The Corporation accounts for its ownership interests in these alternative investments under the equity method based on the net asset value per share of the fund held by the Corporation. The alternative investment fund net asset value is provided to the Corporation by each of the fund managers. The net asset value is determined based on the estimated fair value of each of the underlying investments held in the hedge fund. However, the hedge fund investment holdings may include investments in private investment funds whose values have been estimated by the hedge fund managers in the absence of readily ascertainable fair values. Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market for these investments existed. The investment income recorded is based on the Corporation's proportionate share of the hedge fund portfolio net asset value. The Corporation's share of the hedge funds unrealized gains approximated $9,754,000 and $4,501,000 for the years ended June 30, 2023 and 2022. Alternative investments approximating $76,211,000 at June 30, 2023, in total, have redemption restrictions which require 45-day notification and limit redemption frequency to a quarterly basis. Redemption fund-level gates for each of these alternative investments ranges from 20% to 25% of the investment balance. These investments are no longer subject to a lock-up period.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or fair value on the date received, if donated, less accumulated depreciation. Upon sale or retirement, cost and accumulated depreciation is eliminated from the respective asset accounts and any resulting gain or loss is included in excess (deficiency) of revenues over expenses. Depreciation expense is recorded on a straight-line basis over the estimated useful life of the depreciable asset, which ranges from 3 to 40 years. Equipment is depreciated over the estimated useful lives ranging from 3 to 10 years. Buildings and improvements are depreciated over estimated useful lives ranging generally from 10 to 40 years. Routine maintenance and repairs are charged to expense when incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

2. Summary of Significant Accounting Policies (continued)

Long-Lived Asset Impairment

The Corporation reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recoverable. The Corporation considers assets to be impaired and writes them down to fair value if expected associated undiscounted cash flows are less than the carrying amounts. Fair value is determined to be the present value of the associated assets cash flows. During 2023 and 2022, the Corporation did not record long-lived impairment losses.

Deferred Charges and Other Assets

Deferred charges and other assets consist primarily of land held for future use amounting to $28,922,000 as of June 30, 2023 and 2022. As of June 30, 2023, the Corporation is not currently using the land as part of operations.

Net Assets

Net assets are classified based on the existence or absence of donor or grantor-imposed restrictions. Revenues and gains that are available for general operations and are not subjected to donor restrictions are included in net assets without donor restrictions. Net assets with donor restrictions are those which use by the Corporation has been limited by donors or grantors to a specific time period or purpose.

Excess (Deficiency) of Revenues over Expenses

Management considers excess (deficiency) of revenues over expenses to be the performance indicator. Changes in net assets without donor restrictions, which are excluded from this total, include pension-related changes other than net periodic pension cost.

Revenues

The Corporation recognizes revenues in the period in which it satisfies its performance obligations under contracts by transferring services to customers. Net operating revenues are recognized in the amounts to which the Corporation expects to be entitled, which are the transaction prices allocated to the distinct services.

2. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue

The Corporation's main source of revenue is net patient service revenue principally for patients covered by Medicare, Medicaid, managed care and other commercial health plans, as well as certain uninsured patients. As discussed in Note 3, the Corporation's performance obligations are to provide health care services to the patients.

The Corporation has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounts from established charges, and per diem payments.

The Corporation uses a portfolio approach to estimate the transaction price for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolio consists of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, the Corporation believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

Net patient service revenue is reported at the estimated transaction price due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors (see Note 3). Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known.

Community Benefit

The Corporation provides a broad range of benefits to the northern Arizona community it serves, including offering various community-based social service programs and a number of health-related educational programs. These services are provided to improve the general standards of health for the community. In addition, the Corporation provides care to all patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. A patient is classified as a charity patient by reference to certain policies established by the Corporation as to the ability of the patient to pay. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not recorded as revenue.

2. Summary of Significant Accounting Policies (continued)

Partial payments to which the Corporation is entitled from public assistance and other programs, on behalf of patients, that meet the charity care policy of the Corporation are reported as net patient service revenue.

The Corporation estimates charity care costs based on the most recent cost-to-charge ratio reported in FMC's and VVMC's general ledger. The cost-to-charge ratio includes both direct and indirect costs incurred at FMC and VVMC. For the years ended June 30, 2023 and 2022, costs incurred by the Corporation relating to the provision of charity care amounted to $4,974,000 and $6,658,000, respectively.

Contributions

All contributions are considered without restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as contributions with donor restrictions.

Monetary gifts that are specifically donor restricted are held in net assets with donor restrictions until the designation is met. When a donor designation is met, a stipulated time restriction ends, or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Tax Status

The Corporation is a not-for-profit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Corporation calculates income taxes using the liability method, under which deferred tax assets and liabilities are determined based upon the differences between the financial accounting bases of assets and liabilities. The Corporation recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. Management has reviewed all open tax years and has determined that the Corporation has no significant uncertain tax positions. The statute of limitations for tax returns filed for years 2020 through 2023 remains open in U.S. tax jurisdictions in which the Corporation is subject to taxation. The Corporation's management is not aware of any events that would cause the Corporation to lose its tax-exempt status.

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

There are two types of subsequent events: recognized subsequent events, which provide additional evidence about conditions that existed at June 30, 2023, and unrecognized subsequent events, which provide evidence about conditions that did not exist at June 30, 2023, but arose before the consolidated financial statements were issued. Recognized subsequent events are required to be recognized in the consolidated financial statements, and unrecognized subsequent events are required to be disclosed. In the preparation of the consolidated financial statements, the Corporation has evaluated subsequent events through October 26, 2023, the date the accompanying consolidated financial statements were issued.

3. Net Patient Service Revenue

Net patient service revenue is recognized at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills patients and third-party payors several days after the services are performed or shortly after discharge. Revenues are recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services the Corporation provides. Revenues for performance obligations satisfied over time are recognized based on actual charges incurred in relation to total expected charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in the Corporation's hospitals receiving inpatient acute care services.

The Corporation measures performance obligations from admission to the point when there are no further services required for that patient, which is generally at the time of discharge. Revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, are recognized when goods or services are provided and the Corporation does not believe the patient requires additional goods or services.

3. Net Patient Service Revenue (continued)

Because all of the Corporation’s performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in Accounting Standards Codification 606, *Revenue from Contracts with Customers*, and therefore, the Corporation is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Corporation determines the transaction price based on the reimbursement terms outlined in contractual agreements, historical experience and includes estimated retroactive revenue adjustments under the agreements with third-party payors. For uninsured and underinsured patients who do not qualify for charity care in accordance with the Corporation’s policies, the Corporation determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. The Corporation determines its estimate of implicit price concessions based on its historical collection experience with classes of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups.

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

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All outpatient services rendered to Medicare beneficiaries are paid at prospectively determined rates. FMC’s and VVMC’s Medicare reimbursement are subject to final settlement with the Medicare program, based on the annual hospital specific rate per discharge. Final settlement with the Medicare program is determined after submission of annual cost reports by the Corporation and audit thereof by the Medicare fiscal intermediary.

The Medicare cost reports of the Corporation have been audited by the fiscal intermediary through June 30, 2020, for FMC and VVMC. Management believes that estimated accrued settlements related to unaudited cost reports are adequate. Estimates are continually monitored and reviewed, and as settlements are made or estimates adjusted, differences are reflected in current operations.

3. Net Patient Service Revenue (continued)

A significant portion of the Corporation's net patient service revenue is generated under agreements with Medicare and Arizona Health Care Cost Containment System (AHCCCS), the state of Arizona's Medicaid program. Payments for services covered by Medicare are based on federal regulations specific to the type of service provided. Medicare pays for most services at a prospective rate. Hospital facilities that meet certain requirements receive additional funds in partial payment for the cost of medical education and caring for the indigent. The rates for services covered by Medicaid are determined by the regulations of the state in which the beneficiary is a resident. Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount.

Arizona Health Care Cost Containment System

Inpatient and outpatient services rendered to AHCCCS program beneficiaries are reimbursed under prospectively predetermined rates based on clinical diagnosis and fee schedule methodologies, respectively.

Included in net patient service revenue are Medicaid supplemental payments that are funded through state financial arrangements referred to as the state of Arizona hospital assessment. Under the hospital assessment, the state of Arizona collects funds from healthcare providers and then uses the funds to pay additional Medicaid expenditures to healthcare providers, which allows the state of Arizona to claim additional federal matching funds on the additional reimbursements. Current federal law provides for a cap on the maximum allowable provider assessments as a percentage of the provider's total revenue. There can be no assurance that federal law will continue to provide matching federal funds on state Medicaid expenditures funded through provider assessments, or that the current caps on provider assessment will not be reduced. The Corporation, specifically FMC and VVMC, participates in the state of Arizona hospital assessment program. For the year ended June 30, 2023, the Corporation recognized $84,817,000 in revenue and $30,635,000 in expenses. For the year ended June 30, 2022, the Corporation recognized $90,057,000 in revenue and $28,295,000 in expenses. The Medicaid supplemental revenue is recorded within net patient service revenue and the hospital assessment expense is recorded within supplies, services, and other on the accompanying consolidated statements of activities.

3. Net Patient Service Revenue (continued)

Commercial and Managed Care

The Corporation also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Corporation under these agreements includes prospectively determined rates per discharge or discounts from established charges.

Self-Pay

Self-pay patients include inpatient and outpatient patients without insurance and patients with deductibles and coinsurance associated with third-party payor coverage. For self-pay patients who do not qualify for charity care, the Corporation recognizes revenue on the basis of uninsured discounted or standard rates.

Generally, patients who are covered by third-party payors are responsible for related co-pays, co-insurance and deductibles, which vary in amount. The Corporation also provides services to uninsured patients, and offers uninsured patients a discount from standard charges. The total discounts provided to uninsured patients under this policy were $17,644,000 and $23,181,000 for the years ended June 30, 2023 and 2022, respectively. The Corporation estimates the transaction price for patients with co-pays, co-insurance, and deductibles and for those who are uninsured based on historical collection experience and current market conditions.

3. Net Patient Service Revenue (continued)

The composition of net patient care service revenue by payor and service line for the years ended June 30 is as follows (dollar amounts in thousands):

	2023	Ratio	2022	Ratio
Medicare	**$ 317,306**	**45%**	$ 294,930	40%
AHCCCS/Medicaid	**84,817**	**12**	90,057	12
Commercial and managed care	**299,624**	**42**	314,386	43
Self-pay	**10,570**	**1**	35,119	5
Total net patient service revenue by payor	**$ 712,317**	**100%**	$ 734,492	100%

	2023	Ratio	2022	Ratio
Hospital operations	**$ 650,437**	**91%**	$ 670,980	91%
Physician operations	**56,691**	**8**	57,618	8
Surgery center	**5,189**	**1**	5,894	1
Total net patient service revenue by service line	**$ 712,317**	**100%**	$ 734,492	100%

4. Concentration of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are insured under third-party payor agreements, which include: (1) Medicare, (2) AHCCCS/Medicaid, (3) commercial carriers and managers care organizations, and (4) self-pay. The following table summarizes the percentage of net accounts receivable from all payors as of June 30:

	2023	2022
Medicare	**31%**	32%
AHCCCS/Medicaid	**12**	12
Commercial and managed care	**54**	53
Self-pay	**3**	3
Total	**100%**	100%

4. Concentration of Credit Risk (continued)

Commercial, managed care, and self-pay amounts due consist of receivables from various payors, including individuals involved in diverse activities subject to differing economic conditions. Management does not believe there are any significant credit risks associated with accounts receivable, except for self-pay accounts.

5. Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

As a basis for considering such assumptions, the Corporation utilizes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- *Level 1* – Pricing is based on observable inputs, such as quoted prices in active markets for identical instruments.

- *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 activity, third-party appraisals, and discounted cash flow models.

5. Fair Value Measurements (continued)

Assets measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are identified in the tables below. 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).

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).

The Corporation's alternative investments were approximately $76,212,000 and $86,441,000 at June 30, 2023 and 2022, respectively, and are omitted from the fair value hierarchy in the following tables, as they are accounted for using the equity method of accounting.

As a practical expedient, the Corporation accounts for its ownership interests in commingled fund investments based on the net asset value per share of the fund held by the Corporation.

5. Fair Value Measurements (continued)

The following tables outline the fair value techniques used for financial assets recorded at fair value, on a recurring basis, as of June 30, 2023 and 2022, by the level of observable input and the valuation technique (in thousands):

	Balance at June 30	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, and c)
2023					
Investments:					
Cash and cash equivalents	**$ 2,390**	**$ 2,390**	**$ –**	**$ –**	**a**
Registered investment funds:					
Equity funds	**231,399**	**231,399**	**–**	**–**	**a**
Bond funds	**284,441**	**284,441**	**–**	**–**	**a**
Commingled funds, measured at net asset value	**84,005**	**–**	**–**	**–**	
Total fair value investments	**$ 602,235**	**$ 518,230**	**$ –**	**$ –**	

	Balance at June 30	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, and c)
2022					
Investments:					
Cash and cash equivalents	$ 6,858	$ 6,858	$ –	$ –	a
Registered investment funds:					
Equity funds	234,219	234,219	–	–	a
Bond funds	305,533	305,533	–	–	a
Commingled funds, measured at net asset value	83,500	–	–		
Total fair value investments	$ 630,110	$ 546,610	$ –	$ –	

6. Assets Whose Use is Limited

A summary of assets whose use is limited at June 30, is as follows (in thousands):

	2023	2022
Limited by the Board of Directors' approval	**$ 678,447**	$ 716,551
Restricted by the Pathfinder Health LLC escrow account	**642**	642
	$ 679,089	$ 717,193

A summary of investment income (loss), net for the years ended June 30, is as follows (in thousands):

	2023	2022
Interest income	**$ 23,996**	$ 25,141
Alternative investment gain	**9,754**	4,501
Realized gain, net	**29,567**	2,368
Unrealized loss on investments, net	**(6,943)**	(128,465)
Total	**$ 56,374**	$ (96,455)

7. Property and Equipment

A summary of property and equipment at June 30, is as follows (in thousands):

	2023	2022
Land and improvements	**$ 26,602**	$ 26,252
Buildings and improvements	**449,528**	425,634
Equipment	**410,650**	401,754
	886,780	853,640
Less accumulated depreciation	**(615,283)**	(580,198)
	271,497	273,442
Construction in progress	**49,963**	36,475
Net property and equipment	**$ 321,460**	$ 309,917

8. Leases

The Corporation has operating leases for corporate offices, equipment, and information technology, and finance leases for equipment and clinics with remaining lease terms of one year to nine years, some of which include options to extend the lease. For leases with renewal options, the lease term is extended to reflect renewal options which the Corporation is reasonably certain to exercise.

Right-of-use lease assets and lease liabilities are recognized based on the present value of the future lease payments over the lease term at the commencement date. As the Corporation's leases do not provide an implicit rate, the Corporation uses the risk-free rate, determined using a period comparable with that of the lease term, as of the commencement date in determining the present value of future payments. Lease expense on operating leases is recognized on a straight-line basis over the lease term.

The components of lease expense for the years ended June 30 are as follows (in thousands):

	2023	**2022**
Operating lease cost	**$ 4,887**	$ 4,687
Finance lease cost:		
Amortization of right-of-use assets	**1,233**	1,283
Interest on lease liabilities	**38**	32
Total lease cost	**$ 6,158**	$ 6,002

Weighted average information related to leases for the years ended June 30 were as follows:

	2023	**2022**
Weighted-average remaining lease term (years):		
Finance leases	**3.5**	3.9
Operating leases	**7.4**	7.1
Weighted-average discount rate:		
Finance leases	**0.60%**	0.64%
Operating leases	**2.85%**	1.95%

8. Leases (continued)

The following table reconciles the undiscounted cash flows to the finance lease liabilities and operating lease liabilities recorded on the consolidated statement of financial position as of June 30, 2023 (in thousands):

	Finance Leases	Operating Leases
2024	$ 1,411	$ 5,855
2025	1,310	5,906
2026	1,078	5,867
2027	275	5,895
2028	45	5,959
Thereafter	–	17,283
Total lease payments	4,119	46,765
Less imputed interest	(100)	(6,276)
Present value of future minimum lease payments	4,019	40,489
Less current obligations under leases	(1,355)	(5,485)
Long-term lease obligations	$ 2,664	$ 35,004

Supplemental lease cash flow information for the years ended June 30, is as follows (in thousands):

	2023	**2022**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	**$ 5,478**	$ 4,687
Financing cash flows for finance leases	**759**	1,607

9. Long-Term Debt

A summary of long-term debt at June 30 is as follows (in thousands):

	2023	2022
Series 2015A Hospital Revenue bonds, collateralized by pledge of gross receivables, bearing interest rates fixed annually at 3.75% as defined in the bond agreement. Principal is due in annual installments ranging from $1,395,000 to $5,400,000 through October 2038.	**65,600**	68,000
Series 2015B Hospital Revenue bonds, collateralized by pledge of gross receivables, bearing interest rates fixed annually at 2.771% as defined in the bond agreement. Principal is due in annual installments ranging from $2,500,000 to $5,550,000, through October 2038. Bonds are subject to mandatory tender on June 1, 2025.	**45,615**	45,615
Series 2017A Hospital Revenue bonds, collateralized by pledge of gross receivables, bearing a variable rate of interest that is set monthly as defined by the bond agreement. Principal is due in annual installments ranging from $9,545,000 to $10,465,000 beginning October 1, 2039, through October 2042. The average monthly interest rate for the year ended June 30, 2023 and 2022, was 3.93% and 0.85%, respectively. Bonds are subject to mandatory tender on June 2, 2025.	**40,000**	40,000
Series 2021 Hospital Revenue bonds, collateralized by pledge of gross receivables, bearing interest rates fixed annually at 4.00% as defined in the bond agreement. Principal is due in annual installments ranging from $5,395,000 to $5,850,000 through October 2026. The unamortized premium was approximately $1,012,000 at June 30, 2023.	**22,855**	28,250
Total debt	**174,070**	181,865
Less current portion	**(8,141)**	(7,795)
	165,929	174,070
Less unamortized bond costs and premium	**(18)**	566
Long-term debt	**$ 165,911**	$ 174,636

9. Long-Term Debt (continued)

The bond agreements place restrictions on the operations of the Obligated Group members, which among other things include minimum debt service coverage ratios, minimum liquidity ratios, limits on encumbrances and liens, and minimum insurance coverage. The Obligated Group members consist of all wholly owned affiliates of the Corporation except for NAHPG and Pathfinder. At June 30, 2023 and 2022, the Obligated Group was compliant with these debt covenants.

Principal maturities of long-term debt for each of the next five years ended June 30 and in the aggregate thereafter, inclusive of $1,012,000 of unamortized bond premium, are as follows (in thousands):

2024	$	8,607
2025		8,430
2026		8,443
2027		8,587
2028		7,200
Thereafter		133,815
Total	$	175,082

A summary of bond interest costs for the years ended June 30 is as follows (in thousands):

		2023		2022
Capitalized	**$**	**799**	$	500
Charged to operations		**5,529**		4,815
Total	**$**	**6,328**	$	5,315

10. Pension Plans

Defined Benefit Pension Plan

The Corporation has a noncontributory defined benefit pension plan (the Pension Plan), which covers substantially all of its employees whose employment began prior to July 1, 2000. The Pension Plan is frozen to employees that commenced employment after July 1, 2000, but it continued to accrue benefits for the employees in the Plan until January 1, 2015, when pension accruals for all participants were frozen. The Pension Plan provides a defined benefit based on years of service and final average salary.

Included in the pension plan assets are commingled funds and alternative investments. As a practical expedient, the Corporation accounts for its ownership interests in commingled funds and alternative investments based on the net asset value per share of the fund held by the Corporation.

The Corporation recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of its Pension Plan on the consolidated statements of financial position. The following table sets forth the Corporation's defined benefit pension plan funded status as of June 30, 2023 and 2022, as provided by consulting actuaries (in thousands):

	2023	2022
Change in benefit obligation:		
Benefit obligation, beginning of year	**$ 181,003**	$ 229,770
Interest cost	**8,612**	6,587
Actuarial benefit	**(7,482)**	(44,087)
Benefit payments	**(15,689)**	(11,267)
Benefit obligation, end of year	**$ 166,444**	$ 181,003
Change in plan assets:		
Fair value of plan assets, beginning of year	**$ 155,239**	$ 190,152
Actual return on plan assets	**10,620**	(30,123)
Employer contribution	**1,082**	6,477
Benefit payments	**(15,689)**	(11,267)
Fair value of plan assets, end of year	**$ 151,252**	$ 155,239
Accrued pension liability	**$ (15,192)**	$ (25,764)
Unrecognized net actuarial loss	**67,794**	78,276

10. Pension Plans (continued)

The accumulated benefit obligation for the defined benefit plan was $166,444,000 and $181,003,000 at June 30, 2023 and 2022, respectively.

Net periodic pension cost (benefit) includes the following components for the years ended June 30 (in thousands):

	2023	2022
Interest cost	**$ 8,612**	$ 6,587
Expected return on plan assets	**(10,229)**	(11,779)
Recognized net actuarial loss	**2,609**	2,540
Net periodic pension cost (benefit)	**$ 992**	$ (2,652)

Weighted average assumptions used to determine the projected benefit obligation for the years ended June 30 are as follows:

	2023	2022
Discount rate	**5.43%**	4.92%
Expected return on plan assets	**6.75**	6.75

Weighted-average assumptions used to determine the net periodic pension cost for the years ended June 30 are as follows:

	2023	2022
Discount rate	**4.92%**	2.94%
Expected return on plan assets	**6.75**	6.25

The Pension Plan’s asset allocation and investment strategies are designed to earn returns on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of large losses. The Corporation uses investment managers specializing in each asset category and, where appropriate, provides the investment manager with specific guidelines, which include allowable and/or prohibited investment types. The Corporation regularly monitors manager performance and compliance with investment guidelines.

10. Pension Plans (continued)

The target allocations for plan assets are 60% equity securities, 10% fixed-income securities, and 30% liability hedging assets. The allowable ranges within each of these categories are 20%–80% equity securities, 0%–20% fixed income securities, and 20%–80% liability hedging assets. The expected rate of return actuarial assumption considers the historical long-term rate of return of assets across all of these asset classes.

Alternative investments approximating $12,598,000 have redemption restrictions which require 45-day notification and limit redemption frequency to a quarterly basis. Redemption fund-level gates for each of these alternative investments ranges from 20% to 25% of the investment balance. These investments are no longer subject to a lock-up period.

The fair values of the Pension Plan's assets at June 30, by asset category and fair value hierarchy level, are as follows (in thousands):

	Balance at June 30	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, and c)
2023					
Money market	$ 2,191	$ 2,191	$ –	$ –	a
Registered investment funds:					
Equity funds	52,804	52,804	–	–	a
Comingled funds, measured at net asset value	83,659	–	–	–	
Alternative investments, measured at net asset value	12,598	–	–	–	
	$ 151,252	$ 54,995	$ –	$ –	

10. Pension Plans (continued)

	Balance at June 30	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, and c)
2022					
Money market	$ 12,300	$ 12,300	$ –	$ –	a
Registered investment funds:					
Equity funds	60,125	60,125	–	–	a
Bond funds	49,791	49,791	–	–	a
Comingled funds, measured at net asset value	21,084	–	–	–	
Alternative investments, measured at net asset value	11,939	–	–	–	
	$ 155,239	$ 122,216	$ –	$ –	

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2024	$ 12,410
2025	12,193
2026	12,267
2027	12,313
2028	12,346
Years 2029–2033	61,447

401(k) Plan

The Corporation sponsors a 401(k) plan for its employees. The 401(k) plan allows employees to contribute funds through a pre-tax option and an after-tax option. Both options follow the same guidelines for employee and Corporation contributions. All of the Corporation's employees may participate in the 401(k) plan and are eligible for contributions from the Corporation. The Corporation will match 100% of each employee's contribution up to 4% of his or her salary. Employees immediately vest in their own contributions to the 401(k) plan, vest in the employer pay period match after three years, and vest in the year-end discretionary employer contributions after three years of qualifying service. The Corporation's contributions to the 401(k) plan totaled approximately $12,486,000 and $11,210,000 in 2023 and 2022, respectively.

11. Financial Assets and Liquidity Resources

As of June 30, 2023 and 2022, financial assets and liquidity resources available within one year for general expenditures such as operating expenses, scheduled principal payments on debt and capital expenditures are as follows (in thousands):

	2023	2022
Financial assets:		
Cash and cash equivalents	**$ 73,971**	$ 94,181
Accounts receivable	**138,535**	120,089
Total financial assets and liquidity resources available within one year	**$ 212,506**	$ 214,270

The Corporation's board-designated assets of $679,089,000 as of June 30, 2023 could be liquidated and available for use in the current year, if needed. However, these assets have historically remained invested in the Corporation's investment portfolio. There are no immediate plans to liquidate any of these funds for general expenditures.

The Corporation utilizes an internally managed investment fund to meet cash needs for general expenditures of the Corporation. On a regular basis either: (1) excess funds generated from the Corporation's operations are transferred to the internally managed investment fund, or (2) liquidity needs for general expenditures are sourced from the investment fund. The level of cash kept in the investment fund is based on management's determination of future working capital needs, debt service requirements, fixed capital needs, and other cash outflows of the Corporation.

12. Functional Expenses

The Corporation provides healthcare services, including inpatient, outpatient, physician, rehab, and ambulatory services, to individuals within its geographic areas supported by its acute care centers. Administrative and other includes support services such as finance and accounting, information technology, human resources, marketing, and supply chain.

12. Functional Expenses (continued)

The following statements of functional expenses report the Corporation's operating expenses, as presented on the consolidated statements of activities, by the Corporation's major operating functions for the years ended June 30:

	2023 Operating Expenses		
	Health Care Service	**Administrative and Other**	**Total**
		(In Thousands)	
Expenses:			
Salaries and wages	**$ 314,832**	**$ 46,319**	**$ 361,151**
Employee benefits	**54,639**	**9,216**	**63,855**
Professional fees	**47,183**	**2,532**	**49,715**
Supplies, services, and other	**229,242**	**44,812**	**274,054**
Depreciation and amortization	**33,110**	**4,293**	**37,403**
Interest	**5,049**	**480**	**5,529**
Total expenses	**$ 684,055**	**$ 107,652**	**$ 791,707**

	2022 Operating Expenses		
	Health Care Service	**Administrative and Other**	**Total**
		(In Thousands)	
Expenses:			
Salaries and wages	$ 319,143	$ 39,323	$ 358,466
Employee benefits	50,535	6,977	57,512
Professional fees	40,159	2,201	42,360
Supplies, services, and other	228,908	38,783	267,691
Depreciation and amortization	30,880	3,588	34,468
Interest	4,281	534	4,815
Total expenses	$ 673,906	$ 91,406	$ 765,312

13. Commitments and Contingent Liabilities

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 expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Other than normal operational or licensure citations or shortcomings of the nature commonly found in surveys of hospitals and other customary regulatory matters that are subject to the active attention of the Corporation's Administration and Compliance Department, management believes the Corporation is compliant with fraud and abuse laws and regulations, as well as other applicable government laws and regulations.

Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Insurance

The Corporation retains a layer of liability for employee medical benefits up to $300,000 per employee, or dependent, and has purchased insurance for claims incurred per employee or dependent in excess of this amount. The Corporation has recorded $3,044,000 and $3,511,000 for employee medical benefit obligations as of June 30, 2023 and 2022, respectively. For the years ended June 30, 2023 and 2022, the Corporation recognized employee medical benefit expenses of $22,516,000 and $23,441,000, respectively. The Corporation is fully insured for dental benefit claims and has incurred premium costs of $2,186,000 and $2,125,000 as of June 30, 2023 and 2022, respectively.

The Corporation purchases professional and general liability (PL/GL) insurance to cover medical malpractice claims for physicians and hospital claims for known claims and incidents that may be asserted arising from services provided to patients. Through June 30, 2002, the Corporation's professional and general liability insurance had a per-claim deductible of $50,000 under a claims-made insurance policy. Effective July 1, 2002, the Corporation began retaining liability for professional and general liability claims up to $1,000,000 per claim under a claims-made insurance policy. In August 2012, the Corporation added an additional $1,000,000 buffer layer to the retention limit. In March 2023, the Corporation began retaining for professional liability claims up

13. Commitments and Contingent Liabilities (continued)

to $4,000,000 per claim made under the claims made insurance policy and an additional $1,000,000 buffer layer to the retention limit. The Corporation also purchased insurance in 2012 to cover physicians' professional and general liability with a per-claim self-insured retention of $100,000 under a claims-made insurance policy. The physicians' policy was integrated into the overall corporate PL/GL policy in 2013. Insurance coverage has been purchased by the Corporation to cover excess claim settlements up to $35,000,000 for the Corporation's PL/GL per occurrence and in the aggregate. This excess layer includes coverage for employed physicians' liability.

The Corporation records a liability for estimates of future payments related to PL/GL claims that have not been paid as of year-end. A portion of this estimated payable represents an estimate of claims incurred but not reported (IBNR) to the Corporation. The IBNR claims estimate is developed using actuarial assumptions based upon payment patterns, historical development, and is discounted at 3.5%. Those estimates are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid claims are adequate. The estimates are periodically reviewed by a third-party actuary and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. Related to PL/GL claims at June 30, 2023 and 2022, the Corporation recorded an estimated self-insurance obligation of approximately $12,041,000 and $12,128,000, respectively, in accrued expenses and other liabilities in the consolidated statements of financial position, which includes the liability expected to be paid by the Corporation's excess insurance carrier. The Corporation recorded a liability and corresponding insurance recovery of approximately $2,126,000 and $2,576,000 as of June 30, 2023 and 2022, respectively, relating to the estimated PL/GL claims expected to be covered by the excess insurance carriers.

The Corporation is insured for workers' compensation claims under a first dollar coverage plan whereby the insurer has assumed full risk for the workers' compensation claims. Accordingly, the Corporation has not recorded any insurance recovery or claim liability associated with workers' compensation claims.

In addition to professional and general liability claims, the Corporation is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on the Corporation's consolidated financial position, results of operations, or cash flows.

Supplementary Information

Northern Arizona Healthcare Corporation and Affiliates

Consolidating Statement of Financial Position

(In Thousands)

	FMC	VVMC	NAHC Administration	NAHC Home Health and Hospice	NAHC Medical Group	NAHOSC	Intercompany Eliminations	Subtotal Obligated Group	Pathfinder	Consolidated
Assets										
Current assets:										
Cash and cash equivalents	$ 49,628	$ 3,504	$ 14,414	$ –	$ 3,082	$ 1,716	$ –	$ 72,344	$ 1,627	$ 73,971
Accounts receivable, net	105,221	27,756	–	–	6,511	1,058	(2,741)	137,805	730	138,535
Inventories	9,700	5,209	–	–	–	800	–	15,709	–	15,709
Prepaid expenses and other assets	4,207	2,455	8,520	–	1,288	303	–	16,773	5,696	22,469
Total current assets	168,756	38,924	22,934	–	10,881	3,877	(2,741)	242,631	8,053	250,684
Assets whose use is limited	470,574	207,873	–	–	–	–	–	678,447	642	679,089
Property and equipment, net	209,452	79,906	11,135	3,066	2,242	15,644	–	321,445	15	321,460
Finance lease right-of-use	–	–	1,971	–	2,048	–	–	4,019	–	4,019
Operating lease right-of-use	3,652	274	35,592	–	419	–	–	39,937	–	39,937
Deferred charges and other assets	9,410	4,415	22,502	–	1,045	–	–	37,372	–	37,372
Total assets	$ 861,844	$ 331,392	$ 94,134	$ 3,066	$ 16,635	$ 19,521	$ (2,741)	$ 1,323,851	$ 8,710	$ 1,332,561
Liabilities and net assets										
Current liabilities:										
Accounts payable	$ 24,664	$ 4,602	$ 1,606	$ –	$ 3,158	$ 311	$ –	$ 34,341	$ 18	$ 34,359
Accrued expenses	18,883	2,337	4,273	–	4,573	454	2,742	33,262	2,089	35,351
Finance lease liabilities, current	–	–	655	–	700	–	–	1,355	–	1,355
Operating lease liabilities, current	492	116	4,781	–	96	–	–	5,485	–	5,485
Deferred revenue	1,829	–	–	–	–	–	–	1,829	–	1,829
Current portion of long-term debt	5,847	1,281	–	–	–	1,013	–	8,141	–	8,141
Third-party payor settlements	2,220	351	–	–	–	–	–	2,571	–	2,571
Total current liabilities	53,935	8,687	11,315	–	8,527	1,778	2,742	86,984	2,107	89,091
Long-term debt, less current portion	81,671	57,720	–	–	–	26,520	–	165,911	–	165,911
Finance lease liabilities, noncurrent	–	–	1,316	–	1,348	–	–	2,664	–	2,664
Operating lease liabilities, noncurrent	3,160	158	31,363	–	323	–	–	35,004	–	35,004
Accrued pension liability	8,538	4,588	2,066	–	–	–	–	15,192	–	15,192
Other liabilities	7,089	3,007	–	–	–	(36)	–	10,060	1	10,061
Total liabilities	154,393	74,160	46,060	–	10,198	28,262	2,742	315,815	2,108	317,923
Net assets:										
Without donor restrictions	707,451	257,232	45,031	3,066	6,437	(8,741)	(5,483)	1,004,993	6,602	1,011,595
With donor restrictions	–	–	3,043	–	–	–	–	3,043	–	3,043
Total net assets	707,451	257,232	48,074	3,066	6,437	(8,741)	(5,483)	1,008,036	6,602	1,014,638
Total liabilities and net assets	$ 861,844	$ 331,392	$ 94,134	$ 3,066	$ 16,635	$ 19,521	$ (2,741)	$ 1,323,851	$ 8,710	$ 1,332,561

Northern Arizona Healthcare Corporation and Affiliates

Consolidating Statement of Activities
(In Thousands)

	FMC	VVMC	NAHC Administration	NAHC Home Health and Hospice	NAHC Medical Group	NAHOSC	Intercompany Eliminations	Subtotal Obligated Group	Pathfinder	Consolidated
Revenue:										
Net patient service revenue	$ 477,941	$ 172,495	$ –	$ –	$ 56,692	$ 5,189	$ –	$ 712,317	$ –	$ 712,317
Other operating revenue	9,073	3,530	3,629	–	681	430	–	17,343	6,067	23,410
Total revenues	487,014	176,025	3,629	–	57,373	5,619	–	729,660	6,067	735,727
Expenses:										
Salaries and wages	172,023	62,169	46,319	–	78,515	1,801	–	360,827	324	361,151
Employee benefits	31,281	11,821	9,216	–	10,920	408	–	63,646	209	63,855
Professional fees	20,957	3,900	2,351	–	21,262	28	–	48,498	1,217	49,715
Supplies, services, and other	161,827	49,843	44,810	58	9,502	3,370	–	269,410	4,644	274,054
Depreciation and amortization	21,559	9,221	4,293	203	1,397	699	–	37,372	31	37,403
Interest	2,146	1,822	480	–	13	1,068	–	5,529	–	5,529
Corporate expense allocation from NAHC	72,148	26,262	(103,743)	–	4,937	256	–	(140)	140	–
Total expenses	481,941	165,038	3,726	261	126,546	7,630	–	785,142	6,565	791,707
Income (deficiency) from operations	5,073	10,987	(97)	(261)	(69,173)	(2,011)	–	(55,482)	(498)	(55,980)
Other income (expense):										
Investment gain, net	40,482	15,845	31	–	6	10	–	56,374	–	56,374
Loss from equity investment	–	–	(498)	–	–	–	498	–	–	–
Other income (expense), net	18,544	21	(1,307)	–	–	(2,150)	–	15,108	–	15,108
Excess (deficiency) of revenues over expenses	$ 64,099	$ 26,853	$ (1,871)	$ (261)	$ (69,167)	$ (4,151)	$ 498	$ 16,000	$ (498)	$ 15,502

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