KPMG

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Information

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

TUALITY HEALTHCARE AND SUBSIDIARIES

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KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Directors
Tuality Healthcare:

We have audited the accompanying consolidated balance sheets of Tuality Healthcare and its subsidiaries as of June 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the year ended June 30, 2017 and nine months ended June 30, 2016. These consolidated financial statements are the responsibility of Tuality Healthcare's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tuality Healthcare and its subsidiaries as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the year ended June 30, 2017 and nine months ended June 30, 2016, in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 34 through 36 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Portland, Oregon
October 27, 2017

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2017 and 2016

Assets	**2017**	**2016**
Current assets:		
Cash and cash equivalents	$ 18,824,800	11,845,900
Short-term investments	1,032,700	2,126,500
Patient accounts receivable, net of allowance for uncollectible accounts of $3,678,800 and $3,760,800	22,115,100	23,590,000
Other receivables	8,569,900	6,740,800
Inventory of supplies	3,670,600	3,402,800
Prepaid expenses and other	2,920,500	2,782,000
Current portion of assets whose use is limited	934,900	915,700
Total current assets	58,068,500	51,403,700
Assets whose use is limited:		
Board-designated funds	37,051,400	36,400,200
Under bond indenture agreement – held by Trustee	900	3,589,500
Donor-restricted – specific purpose	3,669,000	2,846,900
Donor-restricted – endowment	2,784,200	2,777,300
Required for current liabilities	(934,900)	(915,700)
Total assets whose use is limited	42,570,600	44,698,200
Property and equipment:		
Property and equipment, net of accumulated depreciation and amortization	43,538,800	42,102,400
Other assets:		
Other receivables – noncurrent	435,600	1,003,400
Investments in unconsolidated affiliates	2,864,700	2,650,500
Deferred compensation plan	2,152,000	1,773,300
Cash value of life insurance	474,200	446,800
Deferred costs and other	540,300	535,500
Intangible assets	1,824,000	1,907,300
Goodwill	318,500	318,500
Total other assets	8,609,300	8,635,300
Total assets	$ 152,787,200	146,839,600

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2017 and 2016

Liabilities and Net Assets		**2017**	**2016**
Current liabilities:			
Accounts payable	$	11,591,700	10,942,300
Accrued payroll and employee benefits		12,812,400	13,334,300
Estimated liabilities for Medicare and Medicaid settlements		478,100	623,000
Long-term debt due within one year		1,052,900	1,116,100
Accrued bond interest payable		109,900	115,700
Total current liabilities		26,045,000	26,131,400
Long-term liabilities:			
Long-term debt, net of amount due within one year		14,713,400	15,766,300
Liability for pension benefits		48,726,200	54,706,200
Other long-term liabilities		7,584,900	3,574,600
Total long-term liabilities		71,024,500	74,047,100
Total liabilities		97,069,500	100,178,500
Net assets:			
Unrestricted		49,255,300	41,017,900
Temporarily restricted by donors		3,678,200	2,865,900
Permanently restricted by donors		2,784,200	2,777,300
Total net assets		55,717,700	46,661,100
Total liabilities and net assets	$	152,787,200	146,839,600

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

For the year ended June 30, 2017 and nine months ended June 30, 2016

		2017	2016
Net patient service revenue:			
Patient service revenue (net of contractual allowances and discounts)	$	178,727,600	130,735,900
Provision for bad debts		(11,385,200)	(7,708,200)
Total net patient service revenue		167,342,400	123,027,700
Other revenue:			
OHSU support		10,559,500	2,682,700
Other revenue		12,524,700	9,990,200
Total other revenue		23,084,200	12,672,900
Total revenue		190,426,600	135,700,600
Operating expenses:			
Salaries and wages		92,751,700	67,189,800
Employee benefits		23,500,200	16,378,900
Supplies and other expenses		60,790,100	45,566,200
Professional fees		5,294,200	3,148,400
Depreciation and amortization		7,601,100	5,819,100
Interest		718,200	488,500
Total operating expenses		190,655,500	138,590,900
Loss from operations		(228,900)	(2,890,300)
Other income:			
Realized income on investments whose use is limited by board designation		27,100	643,300
Gain on investments in affiliated companies		1,329,200	991,600
Loss on disposal of property and equipment		(17,900)	(357,500)
Other nonoperating expenses		—	(165,900)
Total other income		1,338,400	1,111,500
Excess (deficit) of revenue over expenses		1,109,500	(1,778,800)
Contributions for property and equipment acquisition		223,000	387,000
Change in net unrealized gain on other-than-trading securities		2,616,100	639,400
Pension-related changes		4,288,700	(10,943,900)
Increase (decrease) in unrestricted net assets	$	8,237,300	(11,696,300)

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Year ended June 30, 2017 and nine months ended June 30, 2016

	2017	2016
Unrestricted net assets:		
Excess (deficit) of revenue over expenses	$ 1,109,500	(1,778,800)
Contributions for property and equipment acquisition	223,000	387,000
Change in net unrealized gain on other-than-trading securities	2,616,100	639,400
Pension-related changes	4,288,700	(10,943,900)
Increase (decrease) in unrestricted net assets	8,237,300	(11,696,300)
Temporarily restricted net assets:		
Gifts, grants, and bequests	1,171,500	788,500
Investment income	667,800	380,600
Net assets released from restrictions	(1,026,900)	(1,102,900)
Increase in temporarily restricted net assets	812,400	66,200
Permanently restricted net assets:		
Contributions for endowment funds	6,900	240,800
Increase in permanently restricted net assets	6,900	240,800
Change in net assets	9,056,600	(11,389,300)
Net assets, beginning of year	46,661,100	58,050,400
Net assets, end of year	$ 55,717,700	46,661,100

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the year ended June 30, 2017 and nine months ended June 30, 2016

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	9,056,600	(11,389,300)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		7,601,100	5,819,100
Provision for bad debts		11,385,200	7,708,200
Net realized and unrealized gain on investments		(2,989,100)	(1,275,700)
(Gain) loss on investment in affiliated companies		(1,329,200)	(991,600)
Loss on sale of assets		17,900	357,500
Increase in cash value of life insurance		(27,400)	—
Restricted contributions and investment income received		(1,846,200)	(1,409,900)
Cash received from corporate joint venture		2,117,500	1,194,800
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		(11,171,600)	(9,543,200)
Inventories		(267,800)	(93,100)
Prepaid expenses and other		(143,300)	(333,500)
Accounts payable		4,281,000	(792,400)
Accrued payroll and employee benefits		(6,529,300)	13,182,300
Estimated liabilities for Medicare and Medicaid settlements		(144,900)	97,900
Accrued bond interest		(5,800)	115,700
Net cash provided by operating activities		10,004,700	2,646,800
Cash flows from investing activities:			
Purchase of property and equipment		(8,974,500)	(7,236,400)
Proceeds from sales of property and equipment		2,300	1,100
Purchases of securities		55,000	(7,720,400)
Proceeds from sales of securities		4,755,200	12,748,500
Net investment in cash value life insurance		378,700	257,400
Net cash used in investing activities		(3,783,300)	(1,949,800)
Cash flows from financing activities:			
Proceeds from restricted contributions and investment income		1,846,200	1,409,900
Principal payments on long-term debt		(1,088,700)	(357,400)
Net cash provided by financing activities		757,500	1,052,500
Net increase in cash and cash equivalents		6,978,900	1,749,500
Cash and cash equivalents, beginning of year		11,845,900	10,096,400
Cash and cash equivalents, end of year	$	18,824,800	11,845,900
Supplementary disclosure of cash flow information:			
Cash paid during the year for interest	$	678,500	458,000

See accompanying notes to consolidated financial statements.

(1) Summary of Organization and Accounting Policies

Tuality Healthcare (Tuality) is a licensed 215-bed hospital and health services provider operating in Washington County, Oregon. Tuality operates hospitals at two locations, Tuality Community Hospital in Hillsboro, Oregon and Tuality Forest Grove Hospital in Forest Grove, Oregon. In addition to acute care hospital services, Tuality provides a wide array of outpatient diagnostic and treatment services throughout western Washington County.

Tuality Healthcare is the parent company and sole member or stockholder of the following companies:

Tuality Management Systems, Inc. (TMSI), which owns taxable affiliated corporation Tuality Medical Equipment & Supply (TMES) that sells and rents medical durable goods.

Tuality Property Management, Inc., holds hospital-related real estate and property acquired for future hospital expansion or investment.

Tuality Healthcare Foundation, Inc., a foundation established to support Tuality by funding projects and programs that enrich the patient experience and wellness of our community.

The organizations are nonprofit corporations under the laws of the State of Oregon, maintaining tax-exempt status, except for Tuality Management Systems, Inc., which is a for-profit, taxable corporation.

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Tuality and all majority-owned subsidiary companies. Subsidiaries in which Tuality has less than a majority interest are generally accounted for by the equity method, which approximates Tuality's equity in their underlying net book value. All significant intercompany accounts and transactions have been eliminated.

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) Subsequent Events

Management has evaluated subsequent events through October 27, 2017, the date the consolidated financial statements were available to be issued.

(d) Accounts Receivable

Accounts receivable are stated at unpaid balances (net of contractual allowances) and are reduced by an allowance for amounts that could become uncollectible in the future. Substantially all of Tuality's receivables are related to providing healthcare services to its hospitals' patients.

(Continued)

Tuality estimates the allowance for doubtful accounts by reserving a percentage of all self-pay accounts receivable, based on collection history, adjusted for expected recoveries and, if present, anticipated changes in trends. The percentage used to reserve for all self-pay accounts is based on Tuality's recent collection history. Reserves on accounts with third-party payors are set taking into consideration contractually expected amount.

Collections are impacted by the economic ability of patients to pay and the effectiveness of Tuality's collection efforts. Significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage could affect Tuality's collection of accounts receivable and the estimates of the collectibility of current accounts receivable. The process of estimating the allowance for doubtful accounts requires Tuality to estimate the collectibility of self-pay accounts receivable, which is primarily based on its collection history, adjusted for expected recoveries and, if available, anticipated changes in collection trends.

The allowance for uncollectible accounts is decreased by write-offs (net of recoveries). Accounts receivable are written off after collection efforts have been followed in accordance with Tuality's policies.

(e) Net Patient Service Revenue

Net patient service revenue is reported as the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(f) Investments and Assets Whose Use is Limited

Gifts of investment property are reported at fair value at the date of receipt.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments valued utilizing net asset value (NAV) as a practical expedient are excluded from the hierarchy.

Tuality's investments in affiliated companies are reported on the equity method of accounting that approximates Tuality's equity in the underlying net book value of affiliated companies. Short-term investments are stated at cost, which approximates fair value.

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. Investment income on investments of donor-restricted funds are added to the appropriate restricted fund balance. Unrealized gains and losses on investments are excluded from the performance indicator unless the investments are trading securities.

(g) Inventories

Inventories, consisting of supplies, are valued at the lower of cost (first-in, first-out) or market.

(Continued)

(h) Property and Equipment

Property and equipment are carried at cost. Any purchases of land, buildings, and equipment that have an expected useful life greater than one year and a cost greater than $5,000 are capitalized. Refurbishments or improvements that extend the useful life of an existing asset are also capitalized subject to the same cost materiality threshold of $5,000. Donated assets are carried at fair market value at date of donation. Leased assets under capital leases are carried at the present value of future lease payments. The carrying amounts of assets sold, retired, or otherwise disposed of and the related allowances for depreciation are eliminated from the accounts, and any resulting gain or loss is included in nonoperating income or expense. Depreciation of property and equipment is provided by annual charges to expense on a straight-line basis over the expected useful lives of the assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The range of annual lives used in computing depreciation is as follows:

Buildings	10–50 Years
Fixed equipment	15–20 Years
Movable equipment	3–20 Years

(i) Intangible Assets

Intangible assets are recorded at cost and are amortized on a straight-line basis over the estimated useful life of the asset.

(j) Goodwill

Goodwill is not subject to amortization. Management tests goodwill for impairment on an annual basis. No adjustment for impairment was made for the years ended June 30, 2017 or 2016.

(k) Federal and State Income Taxes

Tuality is a nonprofit corporation and it is management’s opinion that substantially none of its activities are subject to unrelated business income taxes. Certain subsidiaries, however, are subject to income taxes, although no significant amounts have been incurred to date.

U.S. generally accepted accounting principles require management of Tuality to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the organization and has concluded that as of June 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. Tuality is subject to routine audits by taxing jurisdictions but no audits are currently in process. Management believes that Tuality is no longer subject to income tax examinations for years prior to 2014.

(Continued)

(l) Cash and Cash Equivalents

Tuality considers all highly liquid short-term investments with maturities of three months or less, at date of purchase or acquisition, to be cash equivalents except for cash and cash equivalents included in assets whose use is limited.

(m) Estimated Malpractice Claims

Tuality purchases professional and general liability insurance to cover medical malpractice claims on a claims-made basis. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. Tuality accrues an estimate of the ultimate costs for both reported claims and claims incurred but not reported, as well as an estimated receivable for expected insurance reimbursements.

(n) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Tuality has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Tuality in perpetuity.

(o) Donor-Restricted Funds

Unconditional promises to give cash and other assets to Tuality are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support 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, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

(p) Income from Operations

Income from operations includes income from provision of patient services, as well as other revenue consisting primarily of OHSU support, management fees, rental income, and realized investment income on other than board-designated assets. Income from operations excludes certain items that Tuality deems to be outside the scope of its primary business.

(q) Excess of Revenue over Expenses

The consolidated statements of operations include excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other-than-trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

(Continued)

(r) OHSU Affiliation

On February 1, 2016, Tuality affiliated with Oregon Health & Science University (OHSU) through the execution of a Management Agreement (the Tuality Agreement) between the organizations. Under the Tuality Agreement, OHSU agrees to oversee the unified and integrated clinical enterprises of OHSU and Tuality as a single, integrated economic unit. OHSU and Tuality remain as separate entities, own their own assets and continue to be the licensed operators of their own facilities. Per the Tuality Agreement, OHSU has guaranteed operating income and operating cash flow support. Operating income support amounted to $10.6 million and operating cash flow support amounted to $1.8 million for the periods from February 2016 through June 30, 2016 and July 1, 2016 through June 30, 2017.

(s) New Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU will require that changes in the value of equity investments with readily determinable market values be recognized through revenue in excess of expenses. The new standard is effective for Tuality on July 1, 2019. Management is in the process of evaluating the impact the adoption of this new ASU on Tuality’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The ASU applies to all leases of tangible assets and the new standard is effective for Tuality on July 1, 2020. Management is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures. Management has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, to provide income statement classification guidance for components of the net benefit cost. The ASU requires entities to disaggregate the current service cost component from the other components of net benefit cost (the other components) and present it with other current compensation costs for related employees in the income statement. Furthermore, entities should present the other components elsewhere in the income statement and outside of income from operations if such a subtotal is presented. This standard is effective for Tuality on July 1, 2020. Management is in the process of evaluating the impact the adoption of this new ASU on Tuality’s consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The ASU will replace most existing revenue recognition guidance in U.S. generally accounting principles when it becomes effective. The new standard is effective for Tuality on July 1, 2019. Management does not anticipate the adoption of this new ASU to have a material impact on Tuality’s consolidated financial statements although certain disclosures and presentation items will be impacted.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU simplifies the classification of net assets and improves the disclosure of information a not-for-profit entity presents about its liquidity, financial performance, and cash flows. The provisions of this ASU are effective for fiscal years beginning after December 15, 2017 and for interim periods beginning after December 15, 2018. The ASU requires a retrospective application of its provisions upon adoption. Tuality is evaluating the effects this standard will have on its consolidated financial statements and accompanying disclosures.

(t) Recently Adopted Accounting Standard

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*. The new guidance changes the presentation of debt issuance costs in the consolidated financial statements to present such costs as a direct deduction from the related debt liability rather than as an asset. Amortization of debt issuance costs will be reported as interest expense. This standard is effective for Tuality for the period ended June 30, 2017.

(2) Investments

(a) Assets Whose Use Is Limited

The Board of Directors has limited the use of certain assets by designation for the specific purpose of facilities expansion, renovation and equipment acquisitions. Other assets are held in trust under bond INDENTURE agreements. The use of certain assets is restricted by donors for specific purposes or permanent endowment. The composition of assets whose use is limited at June 30, 2017 and 2016 is set forth in the following table. Investments are shown at estimated fair value at June 30, 2017 and 2016.

(i) Temporarily and Permanently Restricted Net Assets

Restricted net assets are available for the following purposes:

		2017	2016
Temporarily restricted net assets:			
Education	$	3,562,900	2,767,700
Patient care		115,300	98,200
	$	3,678,200	2,865,900

		2017	2016
Permanently restricted net assets:			
Education	$	1,349,500	1,349,500
Other		1,434,700	1,427,800
	$	2,784,200	2,777,300

Noncurrent investments consist of the following at June 30, 2017 and 2016:

		2017	2016
Tuality Health Alliance, at cost	$	250,000	250,000
	$	250,000	250,000

(Continued)

Other investments recorded using the cost and equity methods of accounting include the following:

	June 30, 2017		June 30, 2016	
	Percentage of ownership	Investments	Percentage of ownership	Investments
Raines Dialysis Center	20.0 %	$ 326,800	20.0 %	$ 216,700
Northwest Hospital Partnership, Inc.	50.0	332,200	50.0	232,800
Mountain States Healthcare	5.0	310,200	5.0	310,200
Noble Woods	22.0	285,500	22.0	353,900
West Coast Sourcing	1.0	5,000	1.0	5,000
Tuality/OHSU Cancer Center	50.0	1,355,000	50.0	1,281,900
		$ 2,614,700		$ 2,400,500

Tuality/OHSU Cancer Center – Tuality owns a 50% equity interest in Tuality/OHSU Cancer Center (TOCC), an Oregon limited liability company operating a radiation treatment center. Tuality made this investment in February 2001, and accounts for the investment under the equity method.

Tuality Healthcare charged TOCC management fees of $855,900 and $629,500 for the years ended June 30, 2017 and 2016, respectively.

TOCC leases its building from Tuality under an agreement expiring in March 2018. Monthly rent payments were $11,000 under the old lease thru March 2017 and $11,400 beginning in April 2017. Total rents received on this property amounted to $133,300 and $97,300 for the years ended June 30, 2017 and 2016, respectively.

Summarized financial information from the unaudited financial statements of TOCC is below, as of and for the year ended June 30, 2017 and nine months ended June 30, 2016:

	Tuality/OHSU Cancer Center Years ended June 30	
	2017	2016
Current assets	$ 1,844,000	1,514,600
Noncurrent assets	1,343,300	1,690,100
Current liabilities	172,900	113,500
Noncurrent liabilities	304,800	527,800
Partners’ equity	2,709,600	2,563,400
Revenues	2,628,300	1,651,300
Net loss	146,300	(216,700)

Tuality Health Alliance – Tuality contributed initial capital of $250,000 to Tuality Health Alliance (the Alliance), an Oregon taxable, not-for-profit corporation organized to create an association of hospitals and physicians to coordinate the delivery of comprehensive, affordable, quality integrated healthcare services to communities served by the incorporator's hospital and physician members, as well as other corporate purposes. Tuality has a 33.3% representation on the board of the Alliance and is carrying their contribution as an investment at $250,000 (the cost of the initial capital contribution).

Tuality charged the Alliance management fees of $3,288,700 and $2,986,400 for the year ended June 30, 2017 and nine months ended June 30, 2016, respectively. Management fees receivable were $255,300 and $309,900 at June 30, 2017 and 2016, respectively.

The Alliance members provide medical care under the Oregon Health Plan to certain patients who qualify under criteria established by the State of Oregon. The agreement under which these services are provided requires the Alliance to maintain certain levels of net worth. Based on interim financial statements for the year ended June 30, 2017, management believes the net worth requirements have been met.

The following table summarizes investment income and gains and losses for assets limited as to use, cash equivalents, and other investments for the year ended June 30, 2017:

		Unrestricted	Temporarily restricted	Total
Interest and dividend income	$	525,000	117,800	642,800
Net realized and unrealized gains		(177,000)	550,000	373,000
Gain on investments in affiliated companies		1,329,200	—	1,329,200
Total investment income	$	1,677,200	667,800	2,345,000
Other changes in unrestricted net assets:				
Change in net unrealized gain on other-than-trading securities	$	2,616,100	—	2,616,100

The following table summarizes investment income and gains and losses for assets limited as to use, cash equivalents, and other investments for the nine months ended June 30, 2016:

		Unrestricted	Temporarily restricted	Total
Interest and dividend income	$	531,000	96,600	627,600
Net realized and unrealized gains		352,300	284,000	636,300
Gain on investments in affiliated companies		991,600	—	991,600
Total investment income	$	1,874,900	380,600	2,255,500
Other changes in unrestricted net assets:				
Change in net unrealized gain on other-than-trading securities	$	639,400	—	639,400

Investment income on board-designated funds is included in nonoperating activities on the consolidated statements of operations. All other investment income is included in operating activities.

Investment expenses were $70,500 and $49,800 for the years ended June 30, 2017 and 2016, respectively.

Investments made by the Tuality Healthcare Foundation shall be managed in accordance with the laws of the State of Oregon, and in ways that maximize overall return on investment with minimal risk to the investment, while promoting stability, flexibility, diversification, and liquidity. The Foundation is the recipient of many donor-restricted gifts, the expenditure of which occurs over time for a variety of charitable purposes. These funds, in addition to miscellaneous unrestricted funds, shall not be pooled with the endowed funds for investment purposes, as the investment objectives for these funds differ from the long-term objective of the endowed funds. These funds will be individually accounted for and will accrue pro-rata investment income until the principal amounts are distributed for their specific purposes. Nonendowed funds shall be invested in a combination of bonds and cash, with the goal of exposing the funds to very low risk. For nonendowed funds, any bonds held will be subject to limited maturity (three years). It is the Foundation’s intention to hold these bonds to maturity whenever possible.

The Foundation will spend up to 6% of a three-year moving average of the total fair value of the endowment assets annually to support community education programs and specific scholarships as designated by the various endowments. For purposes of determining the amount available to spend, the average will be calculated from the fair value of the endowments on June 30 of each year.

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance as of June 30, 2015	$ —	1,706,300	2,783,700	4,490,000
Investment income	—	322,100	—	322,100
Contributions	—	—	100	100
Appropriated for expenditure	—	(99,200)	—	(99,200)
Balance as of June 30, 2016	—	1,929,200	2,783,800	4,713,000
Investment income	—	536,600	—	536,600
Contributions	—	—	400	400
Appropriated for expenditure	—	(131,300)	—	(131,300)
Balance as of June 30, 2017	$ —	2,334,500	2,784,200	5,118,700

(3) Fair Value Measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

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

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

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets.

Fair values of assets measured on a recurring basis at June 30, 2017 are as follows:

		Fair value measurements at reporting date using		
	Fair value	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Short-term investments:				
Cash and cash equivalents	$ 39,900	39,900	—	—
Equity securities	642,300	642,300	—	—
Fixed income securities	350,500	—	350,500	—
Assets whose use is limited:				
Board-designated funds:				
Cash and cash equivalents	263,500	263,500	—	—
Equity securities	8,200,100	8,200,100	—	—
Fixed income securities	19,934,800	19,934,800	—	—
Under bond indenture:				
Cash and cash equivalents	900	900	—	—
Donor-restricted:				
Cash and cash equivalents	249,400	249,400	—	—
Equity securities	4,013,500	4,013,500	—	—
Fixed income securities	2,190,300	—	2,190,300	—
Deferred compensation plan	2,152,000	2,152,000	—	—
	38,037,200	$ 35,496,400	2,540,800	—
Investments valued at NAV as a practical expedient	8,653,000			
Total	$ 46,690,200			

Fair values of assets measured on a recurring basis at June 30, 2016 are as follows:

		Fair value measurements at reporting date using		
	Fair value	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Short-term investments:				
Cash and cash equivalents	$ 94,400	94,400	—	—
Equity securities	636,700	636,700	—	—
Fixed income securities	393,700	—	393,700	—
Municipal income securities	1,001,700	—	1,001,700	—
Assets whose use is limited:				
Board-designated funds:				
Cash and cash equivalents	167,400	167,400	—	—
Equity securities	8,082,600	8,082,600	—	—
Fixed income securities	20,154,700	20,154,700	—	—
Under bond indenture:				
Cash and cash equivalents	3,589,500	3,589,500	—	—
Donor-restricted:				
Cash and cash equivalents	471,900	471,900	—	—
Equity securities	3,183,500	3,183,500	—	—
Fixed income securities	1,968,800	—	1,968,800	—
Deferred compensation plan	1,772,300	1,772,300	—	—
	41,517,200	$ 38,153,000	3,364,200	—
Investments valued at NAV as a practical expedient	7,995,500			
Total	$ 49,512,700			

Investments valued using the net asset value (NAV) per share (or its equivalent) are considered ”alternative investments” and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. Tuality values these investments based on the partnerships’ June 30 financial statements. The following table presents the investments valued at NAV per share, redemption frequency (if currently eligible), and the redemption notice period, and excluded from the fair value hierarchy tables above:

		June 30		Redemption	Redemption
		2017	**2016**	**frequency**	**notice period**
Limited partnerships	$	8,653,000	7,995,500	Monthly to annual	34–120 Days

(4) Community Benefits

Tuality’s mission is to provide quality healthcare services and leadership in promoting health improvement to all persons in its service area on a nondiscriminatory basis and without regard to ability to pay. Tuality recognizes that not all individuals possess the ability to purchase essential medical services and that its mission includes serving the community with respect to providing healthcare service and healthcare education. In keeping with its commitment to serve all members of its community, the following are considered in the context of the individual’s ability to pay and/or community need:

- Free and/or subsidized care
- Care provided to persons covered by governmental programs at below charges
- Health activities and programs to support the community

These activities include wellness programs, community education programs, health screenings, special programs for the elderly, handicapped, and medically underserved, and a wide variety of broad community support activities.

Through its hospitals, Tuality provides care to patients covered by governmental programs, such as Medicare and Medicaid, which reimburse at levels below the actual cost to provide this care. The amount of unpaid cost due to inadequate reimbursement under these programs was approximately $45,055,400 and $34,167,900 during the years ended June 30, 2017 and 2016, respectively. Tuality also provides additional free care under its charity care policy. The cost of care provided under Tuality’s charity policy was estimated to be $3,292,600 and $2,289,200 during the years ended June 30, 2017 and 2016, respectively. The cost of charity care provided is based on Tuality’s estimated relationship of cost to charges.

(5) Net Patient Service Revenue and Patient Receivables

Tuality's net patient service revenue before provision for doubtful accounts by payor for the years ended June 30, 2017 and 2016 is as follows:

		2017	2016
Medicare	$	65,392,900	49,262,000
Medicaid		27,302,700	20,515,000
Commercial and managed care insurers		84,525,000	59,968,300
Self-pay		1,507,000	990,600
Patient service revenue	$	178,727,600	130,735,900

Tuality has agreements with third-party payors that provide for payments to Tuality at amounts different from their established rates. A summary of the payment arrangements with major third-party payors follows:

(a) Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and defined capital costs related to beneficiaries are paid based on a cost reimbursement methodology. Tuality is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Tuality and audits thereof by the Medicare fiscal intermediary. Tuality's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with Tuality. Tuality's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through September 30, 2014.

(b) Medicaid

Inpatient and outpatient services rendered to the Medicare and Medicaid program beneficiaries are paid based on prospective payment rates with final settlement determined after submission of annual cost reports by the Company and audits thereof audits thereof by the Department of Medical Assistance Programs (DMAP) and the Medicare fiscal intermediary, respectively.

Tuality's Medicaid cost reports have been reviewed by DMAP through September 30, 2014.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

There were no material effects on net patient service revenues for the year ended June 30, 2017 or the nine-months ended June 30, 2016 due to changes in prior year estimated Medicare and Medicaid settlements.

(c) Other

Tuality has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to Tuality under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates and outpatient service fee schedules.

(6) Property and Equipment

A summary of property and equipment at June 30, 2017 and 2016 follows:

		2017	2016
Land and land improvements	$	8,965,400	8,898,500
Buildings and fixed equipment		97,332,000	90,157,300
Movable equipment		89,547,700	84,018,900
Equipment under capital leases		8,961,800	8,961,800
		204,806,900	192,036,500
Less accumulated depreciation and amortization		(162,996,800)	(155,758,100)
		41,810,100	36,278,400
Construction in progress		1,728,700	5,824,000
Property and equipment, net	$	43,538,800	42,102,400

(7) Intangible Assets and Goodwill

During the year ended September 30, 2009, Tuality exchanged a parcel of land for parking rights in that same location over the course of 50 years. The value of the license of $1,928,700 is based on the estimated fair value of the transferred land plus cash that was paid as part of the transaction. A gain of $1,724,200 was recognized on the transaction. Tuality began amortizing the license over the 50-year period once the parking spaces became available in August 2010.

Intangibles and accumulated amortization at June 30, 2017 and 2016 are as follows:

		2017	2016
Parking license	$	1,928,700	1,928,700
Noncompete covenant and other		380,500	380,500
		2,309,200	2,309,200
Less accumulated amortization		(485,200)	(401,900)
	$	1,824,000	1,907,300

Amortization expense related to intangible assets was $83,400 and $74,000 for the years ended June 30, 2017 and 2016, respectively.

Estimated aggregate amortization expense for the next five fiscal years is as follows:

Fiscal year ending June 30:		
2018	$	76,700
2019		76,700
2020		76,700
2021		60,200
2022		54,700

(8) Long-Term Debt

Hospital Revenue Refunding Bond, Series 2015, amounting to $16,125,000 was issued by the Hospital Facility Authority of Hillsboro, Oregon (The Authority) to fund an irrevocable trust to defease scheduled principal and interest payments on the Hospital Revenue Bonds, Series 2001. Funds were also provided for bond issue costs and establishing a project fund of $3,578,300 for hospital capital purchases.

Under the terms of the loan agreements created pursuant to these issuances, Tuality (The Obligated Group, which excludes the consolidating entities) agreed to provide funds sufficient to pay the principal and interest on the bonds as they become due and to pay any expenses of the Trustee. The Obligated Group (Obligor) recorded liabilities in the amount of the bonds payable to reflect these agreements. In order to secure the bonds, The Obligated Group granted security interests in the gross revenue from operations, equipment owned or leased located in Tuality facilities, and mortgages on Tuality's real property.

The Obligated Group makes periodic payments to The Authority to satisfy the annual debt service requirements under the bond obligations.

Under the Original Master Indenture, as amended, Tuality agreed to a number of covenants and conditions. Certain significant covenants, which have been met, are described, as follows:

Annual debt service coverage – Under the Master Indenture, the Obligor is to earn net income available for debt service sufficient to achieve an annual debt coverage ratio of at least 1.15.

Liquidity – This provision requires the Obligor to maintain 60 days of cash on hand. Essentially, this is calculated as the total of unrestricted cash and investments divided by daily operating expenses reduced for depreciation. This test is performed on September 30 of each year.

Long-term debt at June 30, 2017 and 2016 consist of the following:

		2017	2016
2015 Series bonds, variable annual payments, including principal and interest at a rate of 2.88% from $1,262,700 to $1,270,600, beginning October 2016 until October 2031	$	15,265,000	16,065,000
Present value of net minimum capital lease obligations		501,300	817,400
Total debt		15,766,300	16,882,400
Less amounts due within one year		(1,052,900)	(1,116,100)
Long-term debt, due after one year	$	14,713,400	15,766,300

Long-term debt maturing in the next five years consists of:

		Long-term debt	Capital leases	Total
Fiscal years ending:				
2018	$	825,000	227,900	1,052,900
2019		850,000	233,800	1,083,800
2020		875,000	39,600	914,600
2021		900,000	—	900,000
2022		925,000	—	925,000
Thereafter		10,890,000	—	10,890,000
	$	15,265,000	501,300	15,766,300

(9) Long-Term Leases

All noncancelable leases have been categorized as capital or operating leases. Tuality leases equipment and buildings under noncancelable operating leases, which expire at various dates between November 2016 and 2028.

Tuality has operating leases for several office buildings expiring on five-year terms with various options to renew. Tuality also has capital leases, which consist of the following:

On July 18, 2014, Tuality entered into a 60-month capital lease for imaging equipment costing $1,115,900.

Property and equipment accounts include the following amounts for equipment leases that have been capitalized:

		2017	2016
Leased equipment	$	8,961,800	8,961,800
Less accumulated amortization (1)		(8,310,900)	(7,942,000)
	$	650,900	1,019,800

(1) Amortization is included in depreciation expense.

Minimum future obligations on leases in effect at June 30, 2017 are:

		Capital leases		Operating leases
Fiscal years ending:				
2018	$	238,100		3,150,000
2019		238,100		2,830,900
2020		39,700		2,864,500
2021		—		2,892,600
2022		—		2,816,400
Thereafter		—		3,689,929
Total minimum lease payments		515,900	$	18,244,329
Less amounts representing interest		(14,600)		
Present value of net minimum lease payments	$	501,300		

Rental expense under noncancelable operating leases with initial terms of one year or greater was $3,227,200 and $2,791,900 for the year ended June 30, 2017 and nine months ended June 30, 2016, respectively.

(10) Retirement Plans

Tuality has a defined-benefit pension plan covering substantially all of its employees. Tuality makes contributions to the plan in amounts sufficient to fund the plan's current service cost and the actuarially computed past service costs over a period of 10 years. In August of 2012, the Board of Directors approved an amendment to freeze the defined-benefit pension plan effective August 31, 2012. In conjunction with the freeze, the plan is now closed to new entrants and compensation no longer accrues. Current participants who are not yet vested will continue to accrue accumulated years of service for hours worked to become vested if they continue working for Tuality.

Effective September 1, 2012, Tuality established a cash balance retirement plan that covers substantially all of its employees. The plan benefits are based on compensation and years of service. Tuality makes annual contributions and interest credits to each employee's account.

The defined-benefit pension plan and the cash balance retirement plan are collectively “the defined-benefit plans.”

In addition, during 1994, Tuality established the Tuality Healthcare Performance Retirement Plan under which eligible employees may defer a portion of their annual compensation pursuant to Sections 403(b) and 401(k) of the Internal Revenue Code. Tuality matches a portion of employee contributions on a discretionary basis. Tuality accrued contributions of $455,800 and $321,800 for the year ended June 30, 2017 and nine months ended June 30, 2016, respectively.

Tuality also has a 457(b) salary deferral plan for key executives. Tuality reports assets and liabilities of equal amounts attributable to the amount deferred and the related investment earnings. Tuality’s invested assets of deferred compensation consist of mutual funds. The balance in the deferred compensation plan at June 30, 2017 was $2,152,000 and is included in other long-term liabilities in the accompanying consolidated balance sheets.

The following table sets forth the funded status of the defined-benefit plans and amounts recognized in Tuality’s consolidated balance sheets as of June 30, 2017 and 2016:

		2017	2016
Change in benefit obligation:			
Projected benefit obligation at July 1, and October 1, respectively	$	117,249,900	104,800,600
Service cost		3,589,800	2,364,000
Interest cost		4,720,200	3,623,800
Actuarial (gain)/loss		(2,053,500)	10,336,600
Expenses paid		(1,395,400)	(979,700)
Benefits paid		(4,101,100)	(2,895,300)
Projected benefit obligation at June 30		118,009,900	117,250,000
Change in plan assets:			
Fair value of assets at July 1, and October 1, respectively		62,543,800	60,238,800
Actual return on plan assets		6,462,400	2,868,000
Employer contribution		5,774,000	3,312,000
Expenses paid		(1,395,400)	(979,700)
Benefits paid		(4,101,100)	(2,895,300)
Fair value of assets at June 30		69,283,700	62,543,800
Funded status	$	(48,726,200)	(54,706,200)

Amounts recognized in the consolidated balance sheets as of June 30, 2017 and 2016 consisted of:

		2017	2016
Long-term liabilities	$	48,726,200	54,706,200

Amounts recognized as changes in unrestricted net assets but not yet included in net periodic pension cost as of June 30, 2017 and 2016 consisted of:

		2017	2016
Net loss	$	56,535,200	61,922,800
Prior service cost		(5,768,900)	(6,867,800)
Total	$	50,766,300	55,055,000

The accumulated benefit obligation for the defined-benefit plans was $117,281,100 and $116,528,200 at June 30, 2017 and 2016, respectively.

		Year ended June 30, 2017	Nine months ended June 30, 2016
Components of net periodic benefit cost:			
Service cost	$	3,589,800	2,364,000
Interest cost		4,720,200	3,623,800
Expected return on plan assets		(4,640,900)	(3,613,200)
Amortization of prior service cost		(1,098,800)	(824,100)
Amortization of net actuarial gain		1,512,400	852,500
Net periodic pension cost	$	4,082,700	2,403,000

The estimated net loss and prior service cost that will be amortized from changes in unrestricted net assets into net periodic pension cost over the next fiscal year are $1,420,000 and $1,512,400, respectively.

(a) Assumptions

	June 30,		
	2017	2016	
Weighted average assumptions used to determine benefit obligations at June 30:			
Discount rate	4.25 %	4.10 %	
Rate of compensation increase	3.00	4.00	*
Weighted average assumptions used to determine net periodic benefit cost for period ended			
Discount rate	4.10 %	4.70 %	
Expected long-term return on plan assets	6.75	7.25	
Rate of compensation increase	4.00	3.50	*

* Compensation increases are not applicable to the defined-benefit pension plan. The annual compensation increase assumption used to determine benefit obligations for the cash balance retirement plan is 3.00% for 2017 and 4.00% for 2018 and thereafter.

The expected long-term rate of return on plan assets reflected the weighted average expected return for the broad categories of investments currently held in the defined-benefit plans (adjusted for expected changes), based on historical rates of return for each broad category, as well as factors that may constrain or enhance returns in the broad categories in the future.

(b) Plan Assets

Tuality's investment policy is to manage the defined-benefit plans with long-term (five years and more) objectives, with little concern for high current income or the need to maintain ready-cash reserves, and with the intent to achieve the highest practicable long-term rate of return without taking excessive risk that could jeopardize the funding policy or cause undue funding volatility. In consideration of this policy, the defined-benefit plans will invest in a variety of asset classes (including short term money-market securities, large-company common stocks, smaller-company common stocks, international common stocks and fixed income securities) and will diversify sufficiently within each asset class or may invest in index funds to minimize the risk of large losses.

Target allocation percentages for each major category of plan assets are as follows:

	Cash balance	Defined benefit
Nontraded alternative	— %	2.50 %
Cash	5.00	10.00
Equity	40.00	45.00
Equity income	9.00	7.50
Fixed	16.00	20.00
Hedged	30.00	15.00
Total	100.00 %	100.00 %

(c) Cash Flows

Tuality expects to contribute $8,288,000 to its pension plan in fiscal year 2018.

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

Fiscal year ending June 30:		
2018	$	4,710,000
2019		5,150,000
2020		5,470,000
2021		5,870,000
2022		6,250,000
Following five years		35,990,000

The following table presents Tuality's pension plan assets measured at fair value at June 30, 2017:

			Fair value measurements at reporting date using		
		Fair value	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Interest-bearing cash	$	2,641,100	2,641,100	—	—
Equity securities:					
Fixed income		980,900	980,900	—	—
Large cap		152,900	152,900	—	—
Mid cap		122,000	122,000	—	—
Small cap		—	—	—	—
Investment contract with insurance company		2,368,900	2,368,900	—	—
Corporate bonds and debentures		1,052,300	—	1,052,300	—
Municipal bonds		167,500	—	167,500	—
U.S. government securities		54,900	54,900	—	—
Registered investment companies:					
Fixed income		12,796,300	12,796,300	—	—
Large cap		38,558,200	38,558,200	—	—
Mid cap		2,627,100	2,627,100	—	—
Small cap		4,221,200	4,221,200	—	—
		65,743,300	$ 64,523,500	1,219,800	—
Investments valued at NAV as a practical expedient		3,540,400			
Total	$	69,283,700			

The following table presents Tuality's pension plan assets measured at fair value at June 30, 2016:

	Fair value	Fair value measurements at reporting date using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Interest-bearing cash	$ 2,377,700	2,377,700	—	—
Equity securities:				
Fixed income	1,073,100	1,073,100	—	—
Large cap	149,400	149,400	—	—
Mid cap	575,800	575,800	—	—
Small cap	—	—		
Investment contract with insurance company	3,449,500	3,449,500	—	—
Corporate bonds and debentures	1,008,500	—	1,008,500	—
Municipal bonds	181,300	—	181,300	—
U.S. government securities	55,600	55,600	—	—
Registered investment companies:				
Fixed income	12,908,500	12,908,500	—	—
Large cap	34,065,400	34,065,400	—	—
Mid cap	2,334,200	2,334,200	—	—
Small cap	3,006,500	3,006,500	—	—
	61,185,500	$ 59,995,700	1,189,800	—
Investments valued at NAV as a practical expedient	1,358,300			
Total	$ 62,543,800			

Investments valued using the net asset value (NAV) per share (or its equivalent) are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. Tuality values these investments based on the partnerships' June 30 financial statements. The following table presents the investments valued at NAV per share, redemption frequency (if currently eligible), and the redemption notice period, and excluded from the fair value hierarchy tables above:

	June 30		Redemption	Redemption
	2017	2016	frequency	notice period
Alternative investments	$ 3,540,400	1,358,300	Event-driven	N/A

(11) Functional Expenses

Tuality provides general healthcare services to residents within its geographic location. Expenses related to providing these services are as follows for the year ended June 30, 2017 and nine months ended June 30, 2016:

	Year ended June 30, 2017	Nine months ended June 30, 2016
Healthcare services	$ 185,689,300	133,425,100
General and administrative	4,966,200	5,165,800
	$ 190,655,500	138,590,900

(12) Concentrations of Credit Risk

Financial instruments, which potentially subject Tuality to concentrations of credit risk consist of the following:

(a) Cash

Tuality maintains its cash balances at several financial institutions located in Washington County, Oregon. As of June 30, 2017, accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. At June 30, 2017, Tuality's uninsured cash balances totaled $2,404,500.

(b) Patient Receivables

The mix of patient receivables was as follows at June 30, 2017 and 2016:

	2017	2016
Medicare and Medicare managed care	42 %	45 %
Medicaid and Medicaid managed care	22	24
Managed care plans	25	20
Workers' compensation	2	2
Other	9	9
	100 %	100 %

(13) Commitments and Contingencies

During the normal course of its operations, Tuality becomes involved in litigation and regulatory investigations.

Tuality has different insurance arrangement with Mountain States Healthcare Reciprocal Retention Group (MSH) along with other member hospitals. All claims under the MSH policy are subject to a $25,000 deductible indemnity payment per claim. The limits provided in the primary policy issued by MSH shall be $1,000,000 per claim and $3,000,000 annual aggregate for general and hospital professional liability, and $1,000,000 per claim and $3,000,000 annual aggregate for physician professional liability. An excess/umbrella insurance program exists for general and hospital professional liability and provides limits in four separate layers and is reinsured by CNA (first excess layer), Zurich (next two excess layers), and Chartis (last excess layer) insurance companies. Each layer provides limits of $5,000,000 per claim and $5,000,000 annual aggregate per hospital and $15,000,000 annual aggregate for all hospitals participating in that layer. Total limits for the hospitals that participate in all four layers are $20,000,000 per claim, $20,000,000 annual aggregate per hospital and $60,000,000 annual aggregate for all hospitals combined. After January 1, 2011, all four excess layers apply. The insurance is on a claims-made basis.

General and professional liability costs, as well as related expected insurance recoveries, have been accrued based on actuarial determination. The amount accrued at June 30, 2017 and 2016 for general and professional liability risks was $3,031,400 and $3,464,100, respectively. The related insurance receivable recorded at June 30, 2017 and 2016 was $1,741,000 and $1,929,000, respectively.

Tuality has an employee medical benefit plan to self-insure claims. This self-insured medical benefit plan operates on a calendar year basis and is administered by a third-party administrator. Tuality has entered into a stop-loss insurance arrangement in an effort to limit its exposure. Tuality and its covered employee dependents contribute to the fund to pay medical claims and reinsurance premiums. At June 30, 2017, management has made provisions, which it believes to be sufficient to cover estimated claims, including claims incurred but not yet reported.

Guarantee of Debt

Tuality, jointly with OHSU, is a guarantor of debt and lease obligations of TOCC. Tuality's guaranteed portion of TOCC's debt and lease obligations totaled approximately $143,000 and $263,900 at June 30, 2017 and 2016, respectively. The guarantees are scheduled to expire November 2018. Examples of events that would require Tuality to provide a cash payment pursuant to the guarantees include a loan default, which would result from TOCC's failure to service its debt when due or noncompliance with financial covenants. There is currently no recorded liability for potential losses under these guarantees, nor is there any liability for Tuality's obligation to stand ready to fund such guarantees, as Tuality does not believe any amount will be payable under the guarantee.

340(b) Liability

In conjunction with an audit performed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs, Tuality Healthcare has an approved Correction Action Plan (CAP) regarding the 340B Pharmacy Program. HRSA's approval of the CAP does not extend to any action taken regarding repayments of discounts received under the program. HRSA does not endorse any specific methodology to determine the scope of the 340B non-compliance, amounts owed to the affected manufactures, or Tuality's plan to repay the affected manufactures. HRSA defers to the affected manufactures for the appropriate remedy. Tuality is unable to determine with any certainty the amount and the timing of any repayments to manufacturers but has determined the range of likely amounts is estimated between $150,000 and $1,400,000.

SUPPLEMENTARY INFORMATION

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Balance Sheet Information

June 30, 2017 with comparable totals for June 30, 2016

Assets	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated June 30, 2017	Consolidated June 30, 2016
Current assets:								
Cash and cash equivalents	$ 15,527,900	851,300	2,362,700	82,900	18,824,800	—	18,824,800	11,845,900
Short-term investments	—	—	—	1,032,700	1,032,700	—	1,032,700	2,126,500
Patient accounts receivable	25,584,700	229,200	—	—	25,813,900	—	25,813,900	27,370,800
Allowance for uncollectible accounts	(3,678,800)	(20,000)	—		(3,698,800)	—	(3,698,800)	(3,780,800)
Other receivables	9,203,000	—	—	9,100	9,212,100	—	9,212,100	7,646,800
Allowance for uncollectible accounts	(642,200)	—	—	—	(642,200)	—	(642,200)	(906,000)
Inventory of supplies	3,226,400	444,200	—	—	3,670,600	—	3,670,600	3,402,800
Prepaid expenses and other	2,915,500	2,900	2,100	—	2,920,500	—	2,920,500	2,782,000
Assets whose use is limited:								
Required for current liabilities	934,900	—	—	—	934,900	—	934,900	915,700
Due from subsidiaries	728,300	—	151,100	25,400	904,800	(904,800)	—	—
Total current assets	53,799,700	1,507,600	2,515,900	1,150,100	58,973,300	(904,800)	58,068,500	51,403,700
Assets whose use is limited:								
Board-designated funds	37,051,400	—	—	—	37,051,400	—	37,051,400	36,400,200
Under bond indenture agreement – held by Trustee	900	—	—	—	900	—	900	3,589,500
Donor-restricted – specific purpose	—	—	—	3,669,000	3,669,000	—	3,669,000	2,846,900
Donor-restricted – endowment	—	—	—	2,784,200	2,784,200	—	2,784,200	2,777,300
Less amount required for current liabilities	(934,900)	—	—	—	(934,900)	—	(934,900)	(915,700)
Total assets whose use is limited	36,117,400	—	—	6,453,200	42,570,600	—	42,570,600	44,698,200
Property and equipment:								
Property and equipment	184,193,900	197,900	22,143,800	—	206,535,600	—	206,535,600	197,860,500
Accumulated depreciation and amortization	(147,098,000)	(68,500)	(15,830,300)	—	(162,996,800)	—	(162,996,800)	(155,758,100)
Total property and equipment	37,095,900	129,400	6,313,500	—	43,538,800	—	43,538,800	42,102,400
Other assets:								
Other receivables – noncurrent	435,200	—	—	400	435,600	—	435,600	1,003,400
Investments in subsidiaries	12,702,900	—	—	—	12,702,900	(12,702,900)	—	—
Investments in unconsolidated affiliates	2,532,500	332,200	—	—	2,864,700	—	2,864,700	2,650,500
Deferred compensation plan	2,152,000	—	—	—	2,152,000	—	2,152,000	1,773,300
Cash value of life insurance	474,200	—	—	—	474,200	—	474,200	446,800
Deferred costs and other	540,300	—	—	—	540,300	—	540,300	535,500
Intangible assets	159,500	—	1,664,500	—	1,824,000	—	1,824,000	1,907,300
Goodwill	318,500	—	—	—	318,500	—	318,500	318,500
Total other assets	19,315,100	332,200	1,664,500	400	21,312,200	(12,702,900)	8,609,300	8,635,300
Total assets	$ 146,328,100	1,969,200	10,493,900	7,603,700	166,394,900	(13,607,700)	152,787,200	146,839,600

(Continued)

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Balance Sheet Information

June 30, 2017 with comparable totals for June 30, 2016

Liabilities and Net Assets	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated June 30, 2017	Consolidated June 30, 2016
Current liabilities:								
Accounts payable	$ 11,293,600	44,500	245,800	7,700	11,591,600	—	11,591,600	10,942,300
Accrued payroll and employee benefits	12,720,500	91,900	—	—	12,812,400	—	12,812,400	13,334,300
Estimated liabilities for Medicare and Medicaid settlements	478,100	—	—	—	478,100	—	478,100	623,000
Long-term debt due within one year	1,052,900	—	—	—	1,052,900	—	1,052,900	1,116,100
Accrued bond interest payable	109,900	—	—	—	109,900	—	109,900	115,700
Due to subsidiaries	192,100	204,300	47,600	460,900	904,900	(904,800)	100	—
Total current liabilities	25,847,100	340,700	293,400	468,600	26,949,800	(904,800)	26,045,000	26,131,400
Long-term liabilities:								
Long-term debt, net of amount due within one year	14,713,400	—	—	—	14,713,400	—	14,713,400	15,766,300
Liability for pension benefits	48,726,200	—	—	—	48,726,200	—	48,726,200	54,706,200
Other long-term liabilities	7,584,900	—	—	—	7,584,900	—	7,584,900	3,574,600
Total long-term liabilities	71,024,500	—	—	—	71,024,500	—	71,024,500	74,047,100
Total liabilities	96,871,600	340,700	293,400	468,600	97,974,300	(904,800)	97,069,500	100,178,500
Net assets:								
Unrestricted	49,456,500	1,628,500	10,200,500	672,700	61,958,200	(12,702,900)	49,255,300	41,017,900
Temporarily restricted by donors	—	—	—	3,678,200	3,678,200	—	3,678,200	2,865,900
Permanently restricted by donors	—	—	—	2,784,200	2,784,200	—	2,784,200	2,777,300
Total net assets	49,456,500	1,628,500	10,200,500	7,135,100	68,420,600	(12,702,900)	55,717,700	46,661,100
Total liabilities and net assets	$ 146,328,100	1,969,200	10,493,900	7,603,700	166,394,900	(13,607,700)	152,787,200	146,839,600

See accompanying independent auditors' report.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Operations

Year ended June 30, 2017 with comparable totals for the nine-months ended June 30, 2016

	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated June 30, 2017	Consolidated June 30, 2016
Net patient service revenue:								
Patient service revenue (net of contractual allowances and discounts)	$ 176,845,800	1,881,800	—	—	178,727,600	—	178,727,600	130,735,900
Provision for bad debts	(11,336,000)	(49,200)	—	—	(11,385,200)	—	(11,385,200)	(7,708,200)
Total net patient service revenue	165,509,800	1,832,600	—	—	167,342,400	—	167,342,400	123,027,700
Other revenue	23,610,900	1,400	2,701,700	207,700	26,521,700	(3,437,500)	23,084,200	12,672,900
Total revenue	189,120,700	1,834,000	2,701,700	207,700	193,864,100	(3,437,500)	190,426,600	135,700,600
Operating expenses:								
Salaries and wages	92,244,200	507,500	—	—	92,751,700	—	92,751,700	67,189,800
Employee benefits	23,329,500	170,700	—	—	23,500,200	—	23,500,200	16,378,900
Supplies and other expenses	61,775,500	943,900	607,200	45,300	63,371,900	(2,581,800)	60,790,100	45,566,200
Professional fees	5,294,200	—	—	—	5,294,200	—	5,294,200	3,148,400
Management fees	—	214,800	474,100	—	688,900	(688,900)	—	—
Depreciation and amortization	7,253,500	11,100	336,500	—	7,601,100	—	7,601,100	5,819,100
Interest	718,200	—	—	—	718,200	—	718,200	488,500
Total operating expenses	190,615,100	1,848,000	1,417,800	45,300	193,926,200	(3,270,700)	190,655,500	138,590,900
Loss from operations	(1,494,400)	(14,000)	1,283,900	162,400	(62,100)	(166,800)	(228,900)	(2,890,300)
Other income:								
Realized income on investments whose use is limited by board designation	27,100	—	—	—	27,100	—	27,100	643,300
Gain (loss) on investments in affiliated companies	2,578,900	224,400	—	(166,800)	2,636,500	(1,307,300)	1,329,200	991,600
Gain (loss) on disposal of property and equipment	2,300	(20,200)	—	—	(17,900)	—	(17,900)	(357,500)
Other nonoperating expenses	—	—	—	—	—	—	—	(165,900)
Total other income	2,608,300	204,200	—	(166,800)	2,645,700	(1,307,300)	1,338,400	1,111,500
Revenue (deficit) in excess of expenses	1,113,900	190,200	1,283,900	(4,400)	2,583,600	(1,474,100)	1,109,500	(1,778,800)
Contributions for property and equipment acquisition	223,000	—	—	—	223,000	—	223,000	387,000
Change in net unrealized gain (loss) on other than trading securities	2,559,100	—	—	57,000	2,616,100	—	2,616,100	639,400
Pension-related changes	4,288,700	—	—	—	4,288,700	—	4,288,700	(10,943,900)
Increase (decrease) in unrestricted net assets	$ 8,184,700	190,200	1,283,900	52,600	9,711,400	(1,474,100)	8,237,300	(11,696,300)

See accompanying independent auditors' report.