ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Schedules

September 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Directors
Asante Health System and subsidiaries:

We have audited the accompanying consolidated financial statements of Asante Health System and its subsidiaries, which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 auditors consider 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Asante Health System and its subsidiaries as of September 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2 to the consolidated financial statements, in 2019, Asante Health System adopted new accounting guidance in accordance with Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* and ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958).* Our opinion is not modified with respect to these matters.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included on pages 36 to 38 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 audit 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
December 11, 2019

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2019 and 2018

(In thousands)

Assets	**2019**	**2018**
Current assets:		
Cash and cash equivalents	$ 71,145	48,323
Assets whose use is limited, current portion	12,174	12,693
Patient accounts receivable, net	121,580	113,314
Accrued interest and other receivables	23,648	20,776
Inventories	15,939	8,822
Prepaid expenses	12,496	15,984
Total current assets	256,982	219,912
Assets whose use is limited:		
Restricted by donors	17,102	14,510
Beneficial interest in Asante Ashland Community Hospital Foundation	1,466	1,466
Board and other designated assets	24,806	26,940
	43,374	42,916
Less amount required to meet current obligations	12,174	12,693
	31,200	30,223
Marketable securities	657,906	634,373
Property, plant, and equipment, net	342,216	341,144
Land held for future use	10,809	10,809
Other assets, net	11,882	11,048
Total assets	$ 1,310,995	1,247,509

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2019 and 2018

(In thousands)

Liabilities and Net Assets		**2019**	**2018**
Current liabilities:			
Accounts payable	$	16,759	13,707
Payroll, payroll taxes, and related benefits		43,499	40,383
Self-insurance liability, current portion		13,033	10,972
Estimated reimbursement due to government agencies, net		4,505	3,661
Other current liabilities		34,418	28,605
Current portion of long-term debt and capital lease obligations		12,174	12,693
Total current liabilities		124,388	110,021
Long-term debt and capital lease obligations, net of current portion and unamortized bond cost		224,177	228,926
Pension benefit obligation		16,244	12,299
Other long-term liabilities		27,736	29,083
Total liabilities		392,545	380,329
Net assets:			
Without donor restrictions		899,876	851,199
With donor restrictions		18,574	15,981
Total net assets		918,450	867,180
Total liabilities and net assets	$	1,310,995	1,247,509

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended September 30, 2019 and 2018

(In thousands)

		2019	2018
Revenue and other support:			
Net patient service revenue	$	961,040	849,775
Other operating revenue		20,088	31,611
Total revenue and other support		981,128	881,386
Operating expenses:			
Salaries and benefits		525,415	492,476
Supplies		188,404	149,641
Purchased services		67,663	54,328
Professional fees		15,646	14,968
Repairs and maintenance		12,511	11,937
Insurance		2,794	6,781
Rent and utilities		11,441	11,438
Interest and amortization		11,223	10,799
Depreciation		48,344	50,360
Provider tax expense		45,945	41,964
Other		13,762	7,024
Total operating expenses		943,148	851,716
Operating income		37,980	29,670
Nonoperating income (loss):			
Investment income, net of fees		35,784	33,418
Change in unrealized gains and losses on trading investments		(15,213)	10,633
Other, net		(9,689)	(1,422)
Total nonoperating income		10,882	42,629
Excess of revenue over expenses, carried forward	$	48,862	72,299

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2019 and 2018

(In thousands)

		2019	2018
Assets without donor restrictions:			
Excess of revenue over expenses, carried forward	$	48,862	72,299
Net assets released from restrictions used for purchases of property, plant, and equipment		12	1,241
Other		(197)	743
Increase in net assets without restrictions		48,677	74,283
Assets with donor restrictions:			
Contributions and investment income		3,965	3,577
Net assets released from restrictions		(1,372)	(2,063)
Increase in assets with restrictions		2,593	1,514
Increase in net assets		51,270	75,797
Net assets, beginning of year		867,180	791,383
Net assets, end of year	$	918,450	867,180

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Increase in net assets	$	51,270	75,797
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		53,866	52,383
(Gain) loss on land held for future use		(398)	2,803
Realized and net change in unrealized gains and losses on marketable securities		(825)	(30,363)
(Deficit) equity in (earnings) losses of healthcare ventures		(1,026)	1,537
Distributions from investments in healthcare ventures		818	1,220
Restricted donations and investment income		—	1,144
Change in operating assets and liabilities:			
Operating assets		(15,127)	(10,224)
Operating liabilities		17,484	(12,217)
Net cash provided by operating activities		106,062	82,080
Cash flows from investing activities:			
Purchases of property, plant, and equipment		(53,734)	(28,784)
Sales of marketable securities and assets whose use is limited		195,010	406,736
Purchases of marketable securities and assets whose use is limited		(218,200)	(403,111)
Investment in healthcare ventures		(675)	1,396
Net cash used in investing activities		(77,599)	(23,763)
Cash flows from financing activities:			
Principal payments on long-term debt and capital lease obligations		(12,795)	(15,517)
Proceeds from restricted donations and investment income		—	(1,144)
Proceeds from long-term debt		7,154	—
Net cash used in financing activities		(5,641)	(16,661)
Net increase in cash and cash equivalents		22,822	41,656
Cash and cash equivalents, beginning of year		48,323	6,667
Cash and cash equivalents, end of year	$	71,145	48,323
Supplemental disclosures of cash flow information:			
Cash paid for interest	$	11,466	10,751
Change in capital purchases in accounts payable		287	(1,119)
Assumption of mortgages		2,992	—

See accompanying notes to consolidated financial statements.

(1) Organization

Asante Health System (Asante) is a private, not-for-profit, community-based healthcare organization providing health-related services to the residents of Southern Oregon and Northern California. Asante includes the operations of the following private, not-for-profit operating units and affiliates:

Asante (Parent Company)

Asante provides various support services to its operating units and other affiliates.

(a) Operating Units (which comprise the Obligated Group)

Asante has established an Obligated Group to access capital markets. Obligated Group members are jointly and severally liable for the long-term debt outstanding under the Obligated Group's master trust indenture. Asante's operating units, which comprise the Obligated Group, are as follows:

(i) Asante Rogue Regional Medical Center (ARRMC)

ARRMC is a regional tertiary healthcare facility providing for the healthcare needs of Southern Oregon and Northern California.

(ii) Asante Three Rivers Medical Center (ATRMC)

ATRMC is a medical center in Josephine County providing inpatient and outpatient health care services to the Grants Pass community and surrounding area.

(iii) Asante Ashland Community Hospital (AACH)

AACH is a community hospital providing surgical, emergency, and diagnostic services to the communities in the Southern Rogue Valley and Northern California.

(iv) Siskiyou Imaging

Siskiyou Imaging is an Oregon limited liability company (LLC) providing magnetic resonance imaging services in Ashland. The venture is jointly owned by Asante (33.3%), AACH (33.3%), and a physician group (33.3%).

(b) Other Affiliates

The following are consolidated affiliates of Asante and are not part of the Asante Obligated Group.

(i) Asante Physician Partners (APP)

APP is a wholly owned subsidiary that employs and manages physician providers, including primary care, specialists, and midlevel providers.

(ii) Asante Foundation (the Foundation)

The Foundation is a public benefit corporation of Asante responsible for fundraising and development.

(Continued)

(iii) Southern Oregon Insurance, Inc. (SOII)

SOII is a single-parent direct issue captive, incorporated in the state of Hawaii, providing healthcare professional and commercial general liability insurance and claims management services for Asante.

(iv) Southern Oregon Trauma and Emergency Services, LLC (SOTES)

SOTES is an Oregon LLC that coordinates trauma and emergency medical services provided at ARRMC and ATRMC.

(i) Health Alliance of Southern Oregon (HASO), dba Asante Health Network.

HASO is a disregarded entity LLC functioning as a provider network structure amongst community providers, APP providers, and Asante hospitals. Its purpose is to aggregate providers and facilities to improve quality, efficiency, and patient satisfaction in the marketplace through innovative payment arrangements with payors and employers. Currently, there are almost 700 HASO-affiliated providers representing 30 separate provider groups.

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Asante and other affiliates. All significant intercompany account balances and transactions have been eliminated.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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. The significant estimates in Asante’s consolidated financial statements include accounts receivable allowances and liabilities related to self-insurance programs and the pension obligation.

(c) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid financial instruments with original maturities of three months or less when purchased. Cash equivalent balances included in cash and cash equivalents in the consolidated balance sheets at September 30, 2019 and 2018 are $5,543,000 and $4,554,000, respectively.

Asante maintains cash and cash equivalents on deposit at various institutions, which at times exceed the insured limits by the Federal Deposit Insurance Corporation. This exposes Asante to potential risk of loss in the event the institution becomes insolvent.

(d) Patient Accounts Receivable

Accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Credit is granted without collateral to Asante’s patients, most of whom are local residents and are insured under third-party payor agreements. Asante manages the receivables by regularly reviewing its accounts and contracts and by providing appropriate allowances for explicit and implicit price concessions. Asante estimates these allowances based on the aging of accounts receivable, historical collection experience by payor, and other relevant factors. The mix of net receivables based on significant third-party payor classifications is as follows:

	September 30	
	2019	**2018**
Medicare	29%	34%
Medicaid	11	11
Private pay	1	1
Commercial	48	47
Others	11	7
	100%	100%

(e) Inventories

Inventories are stated at the lower of cost, as determined by the first-in, first-out method, or market.

(f) Assets Whose Use is Limited

Assets whose use is limited are carried at fair value and are accounted for as trading securities and primarily include assets with donor restrictions, assets held by trustees under indenture agreements, and designated assets set aside by the Board of Trustees (the Board) for certain purposes, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts that will be used to satisfy current liabilities are classified as current assets in the accompanying consolidated balance sheets. Gains and losses on sales of assets whose use is limited are computed on the specific-identification method. Interest income or loss (including realized gains and losses on investments, interest, and dividends) is included in nonoperating income unless the income or loss is restricted by donor or law. Unrealized gains and losses on trading securities are included in nonoperating income (loss) in the accompanying consolidated statements of operations.

(g) Marketable Securities

Marketable securities are accounted for as trading securities and consist principally of mutual funds, U.S. government agency obligations, corporate obligations, and equity securities that are stated at fair value. Amounts are classified as noncurrent assets in the accompanying consolidated balance sheets as Asante does not intend that they be used to satisfy current obligations. Gains and losses on sales of marketable securities are computed on the specific-identification method. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in nonoperating income. Unrealized gains and losses on trading securities are included in nonoperating income (loss) in the accompanying consolidated statements of operations.

(h) Property, Plant, and Equipment

Property, plant, and equipment acquisitions are recorded at cost. Depreciation expense is computed using the straight-line method over the following estimated useful lives of the assets:

Buildings	15–50 years
Equipment	3–25 years
Land improvements	8–20 years
Leasehold improvements	The shorter of lease term or useful life

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. Such amortization is included within depreciation in the accompanying consolidated financial statements.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as increases in net assets without donor restrictions and are excluded from excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as increases in net assets with donor restrictions.

Asante assesses potential impairment to its long-lived assets, including land held for future use, when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. No impairment losses have been identified.

(i) Financing Costs

Financing costs incurred in connection with debt agreements are deferred and amortized over the life of the respective debt, using the effective-interest method, and are included as a reduction to debt in the accompanying consolidated balance sheets.

(j) Investments in Healthcare Ventures

Investments in healthcare-related joint ventures where Asante does not have a controlling interest but has significant influence have been accounted for using the equity method and are included in other assets in the accompanying consolidated balance sheets.

(k) Self-Insurance

(i) Workers' Compensation

The annual self-insured retention under Asante's workers' compensation program is $750,000 per claim per year. Asante carries an excess coverage policy for its workers' compensation program. The accrued liability for the self-insured components of the plan includes the unpaid portion of claims that have been reported and estimates for claims that have been incurred but not reported. The actuarially determined total estimated gross liability at September 30, 2019 is $9,146,000, with

(Continued)

$2,889,000 of this amount insured estimated to be covered by coverage provided by excess carriers. The actuarially determined total estimated gross liability at September 30, 2018 is $9,526,000, with $3,096,000 of this amount insured estimated to be covered by coverage provided by excess carriers. The current portion of the accrued liability for workers' compensation is included in self-insurance liability. The long-term portion of the accrued liability is included in other long-term liabilities.

(ii) Medical

Asante maintains a self-insured medical plan for its employees. The accrued liability for the self-insured components of the plan includes estimates of the costs for the incurred but not paid claims as well as related claims administration expense.

The actuarially determined estimated liability for Asante is $5,375,000 and $4,581,000 at September 30, 2019 and 2018, respectively, and is included in self-insurance liability.

(iii) Professional Liability

Asante is self-insured for professional liability exposures through SOII. SOII provides coverage for Asante's claims up to $1 million per claim, with a $5 million annual aggregate. Asante has purchased insurance with third-party carriers for claims in excess of the $1 million amount per claim or $5 million aggregate. The coverage provided by SOII and the third-party carriers is in the form of claims-made insurance policies. Should the claims-made policies not be renewed or replaced or the excess carriers become unable to perform under the contracts, claims related to occurrences during the terms of the policies but reported subsequent to their termination may be uninsured. Asante, including SOII, records actuarially estimated liabilities for reported claims as well as an estimated tail liability for claims that have been incurred but not reported.

The total expected value, undiscounted estimated gross liability for Asante at September 30, 2019 is $23,059,000, with $4,017,000 of this amount estimated to be covered by excess carriers. The total expected value, undiscounted estimated gross liability for Asante at September 30, 2018 is $22,973,000, with $3,576,000 of this amount estimated to be covered by excess carriers. The current portion of the liability is recorded in self-insurance liability. The long-term portion is included in other long-term liabilities. The receivable for insurance recoveries is included in other assets.

Management is not aware of any potential professional liability claims whose settlement would be in excess of amounts provided or would otherwise have a material adverse effect on Asante's consolidated financial position.

(l) Oregon State Provider Tax

The State of Oregon operates a provider tax program related to certain patient service revenue at certain qualifying hospitals. Asante recorded provider tax expenses of approximately $49,948,000 and $41,964,000 for the years ended September 30, 2019 and 2018, respectively. Asante recorded provider tax liabilities of $12,458,000 and $10,565,000 at September 30, 2019 and 2018, respectively, which are included in other current liabilities in the accompanying consolidated balance sheets. In addition, Asante has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments to Asante related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these

(Continued)

payments, returning a portion to Asante. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to the qualifying hospitals. Asante estimates the amounts from OAHHS for the years ended September 30, 2019 and 2018 are $45,945,000 and $38,308,000, respectively, which are reflected as a component of net patient service revenue in the accompanying consolidated statements of operations. Asante recorded receivables of $12,418,000 and $9,232,000 at September 30, 2019 and 2018, respectively, which are included in other receivables in the accompanying consolidated balance sheets.

(m) Net Assets

(i) Assets without Donor Restrictions

All net assets that are not restricted by third-party donors are included in net assets without donor restrictions.

(ii) Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by Asante has been limited by donors to a specific time period, purpose or net assets that have been restricted by donors to be maintained by Asante in perpetuity. Spending against endowment funds, for entities other than AACH, may not exceed 5% of the corpus in any fiscal year based on Asante's endowment spending policy. AACH allows 100% of earnings on investments to be spent for the restricted purpose of the endowment fund.

Unconditional promises to give cash and other assets to Asante 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 conditions are met. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When restricted funds to be used for operations are expended for their restricted purposes, these amounts are reflected in net assets without donor restrictions as net assets released from restrictions for operations and are included in other income. When restricted funds are expended for the acquisition of property, plant, and equipment, these amounts are reported as released from restriction for capital in the consolidated statements of operations and changes in net assets.

Net assets with donor restrictions are maintained for the following purposes as stipulated by donors at September 30 (in thousands):

		2019	2018
Capital	$	5,258	884
Child and infant health (capital)		2,658	6,410
Restricted for specific purpose at AACH		1,472	1,472
Others		9,186	7,215
Total net assets with donor restrictions	$	18,574	15,981

(n) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated settlements under third-party reimbursement agreements are accrued in the period the related services are rendered and adjusted in future periods, primarily as a result of final settlements.

(o) Charity Care

Asante provides care to patients who meet poverty guidelines under its charity care policy. Asante does not pursue collection of amounts determined to qualify as charity care; therefore, they are not reported as revenue.

(p) Healthcare Transformation Performance Program

The State of Oregon established a Healthcare Transformation Performance Program (HTPP) to advance health system transformation, reduce hospital costs, and improve patient safety. In the first year of the program, all diagnostic-related group hospitals in Oregon were eligible to earn HTPP payments based on reporting of key quality measures. Payments are based on relative hospital size, as determined by Medicaid days and discharges. Payments in subsequent years are determined by improvements in performance against quality measures. The program ended in 2018.

Asante earned and recorded $11,915,000 in HTPP payments in fiscal year 2018. This amount is included in other operating revenue in the consolidated statement of operations.

(q) Nonoperating Income

Nonoperating income includes certain items that management deems to be outside the scope of its primary business. Items consist primarily of investment income, change in unrealized gains and losses on trading investments, net results of the Foundation, defined benefit pension costs, and other income. Investment income consists of interest and dividend income and realized gains (losses) from marketable securities and assets whose use is limited, offset by investment management fees.

(r) Net Contributions from the Foundation

Asante reports the net results of the Foundation's activities as part of nonoperating income under the "other, net" classification. Net results from the Foundation for the years ended September 30 (in thousands) are as follows:

		2019	2018
Other revenue	$	2,930	3,242
Unrestricted revenue		2,930	3,242
Salaries and benefits		1,178	1,111
Supplies		241	170
Purchased services		685	592
Rent and utilities		4	1
Other		1,604	1,979
Total expenses		3,712	3,853
Loss prior to investment income		(782)	(611)
Net unrealized (losses) gains on trading investments		(1,389)	563
Deficit of revenue over expenses	$	(2,171)	(48)

(s) Excess of Revenue over Expenses

The consolidated statements of operations report the excess of revenue over expenses and other changes in net assets without donor restrictions. Changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses, consistent with industry practice, include transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions that, by donor restriction, were to be used for the purposes of acquiring such assets).

(t) Federal and State Income Taxes

Asante has received a determination letter from the Internal Revenue Service (IRS) stating that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC), except for unrelated business income. Management believes Asante is operated in a manner that qualifies it for tax-exempt status. Income taxes are provided for the tax effects of transactions unrelated to Asante's tax-exempt purpose reported in the consolidated financial statements; however, such activities are not significant to the consolidated financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Asante and recognize a tax liability (or asset) if Asante has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by Asante and has concluded that as of September 30, 2019, there are no uncertain positions taken, or expected to be taken, that would require recognition of a liability (or an asset) or disclosure in the consolidated financial statements. Asante is subject to

(Continued)

routine audits by taxing jurisdictions. As of September 30, 2018, Asante Ashland Community Hospital (formerly Ashland Community Health System) completed an audit by the IRS for 2016, 2017, and 2018 tax years as it relates to compliance with the Community Health Needs Assessment requirements (IRC Section 501(r)).

(u) Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers,* to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. generally accepted accounting principles and International Reporting Standards. Effective October 1, 2018, Asante adopted ASU No. 2014-09 using the full retrospective method of transition. This ASU converged and replaced existing revenue recognition. As a result of implementing ASU No. 2014-09, certain patient activity for which collection is uncertain no longer meets the criteria for revenue recognition. Accordingly, the provision for uncollectible accounts after the adoption date is significantly reduced with a corresponding reduction to net patient service revenue as this activity was previously reported through September 30, 2018 as the provision for uncollectible accounts in Asante's consolidated statements of operations. Such patient activity is now classified as an implicit price concession. Other aspects of Asante's implementation of ASU No. 2014-09 impacting net patient service revenue include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures, and these are reflected in note 10. The adoption of ASU No. 2014-09 in relation to other applicable revenue activity had no material impact on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the intent to reduce diversity in reporting practice, reduce complexity, and enhance understandability of not-for-profit (NFP) financial statements. This ASU contains the following key aspects: (A) reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; (B) requires all NFPs to present expenses by their functional and their natural classifications in one location in the financial statements; (C) requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date; and (D) retains the option to present the statement of cash flows using either the direct or indirect method. Asante adopted ASU No. 2016-14 for the period beginning October 1, 2018.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Asante adopted the ASU for the period beginning October 1, 2018 and recorded nonoperating (expense) income of $(6,237,000) and $3,704,000 for increases in net periodic benefit costs and other plan administration expenses of the Ashland Community Hospital Retirement Plan for the years ended September 30, 2019 and 2018, respectively. This amount is included in Other, net in the nonoperating section of the statement of operations.

Upcoming Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 amends the FASB Accounting Standards Codification (ASC) and created ASC Topic 842, *Leases*. Under ASC Topic 842, lessees are required to recognize assets and liabilities on the consolidated balance sheet for most leases and provides for enhanced disclosures. Leases will continue to be classified as either finance or operating. This guidance is effective for Asante on October 1, 2019. Leases that were previously deemed operating will be presented on the consolidated balance sheets and disclosures will be expanded as a result of the adoption.

(v) Reclassifications

Certain amounts in the consolidated financial statements for the years ended September 30, 2019 and 2018 have been reclassified to be consistent with current year presentation.

(3) Marketable Securities and Assets Whose Use is Limited

The composition of marketable securities and assets whose use is limited at fair value at September 30 is as follows (in thousands):

		2019	2018
Corporate equity securities	$	159,455	179,873
Mutual funds		389,580	352,239
Corporate bonds		28,303	32,973
Exchange-traded international index funds		6,548	6,602
U.S. government agency obligations		69,441	66,906
U.S. government obligations		13,107	11,190
Cash and cash equivalents		19,062	12,460
Collateralized mortgage obligations		14,318	13,580
		699,814	675,823
Add:			
Assets held by Ashland Community Hospital Foundation		1,466	1,466
Less:			
Assets whose use is limited, current portion		12,174	12,693
Assets whose use is limited, net of current portion		31,200	30,223
Marketable securities	$	657,906	634,373

Investment income for the years ended September 30 comprised the following elements (in thousands):

		2019	2018
Interest and dividends	$	21,531	15,403
Realized gains, net		16,038	19,730
Investment income before fees		37,569	35,133
Less:			
Investment fees		(1,765)	(1,776)
Restricted donations and investment income		(20)	61
Investment income, net	$	35,784	33,418

In accordance with ASC Topic 820, *Fair Value Measurement*, financial assets and financial liabilities measured at fair value are grouped in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels are as follows:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange; valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets; Level 2 valuations 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.
- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions; Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The following table presents the balances of assets measured at fair value on a recurring basis at September 30, 2019 (in thousands):

	Level 1	Level 2	Level 3	Fair value
Assets:				
Corporate equity securities:				
Large cap value	$ 27,397	—	—	27,397
Small/mid cap growth	67,222	—	—	67,222
Large cap growth	64,836	—	—	64,836
Total	159,455	—	—	159,455
Mutual funds:				
Equity	266,649	—	—	266,649
Fixed income	120,825	—	—	120,825
Money market	2,106	—	—	2,106
Total	389,580	—	—	389,580
Corporate bonds	—	28,303	—	28,303
Exchange-traded international index funds	6,548	—	—	6,548
U.S. government agency obligations	—	69,441	—	69,441
U.S. government obligations	13,107	—	—	13,107
Cash and cash equivalents	19,062	—	—	19,062
Collateralized mortgage obligations	—	14,318	—	14,318
Total	$ 587,752	112,062	—	699,814

The following table presents the balances of assets measured at fair value on a recurring basis at September 30, 2018 (in thousands):

	Level 1	Level 2	Level 3	Fair value
Assets:				
Corporate equity securities:				
Large cap value	$ 37,109	—	—	37,109
Small/mid cap growth	84,697	—	—	84,697
Large cap growth	58,067	—	—	58,067
Total	179,873	—	—	179,873
Mutual funds:				
Equity	234,561	—	—	234,561
Fixed income	115,762	—	—	115,762
Money market	1,916	—	—	1,916
Total	352,239	—	—	352,239
Corporate bonds	—	32,973	—	32,973
Exchange-traded international index funds	6,602	—	—	6,602
U.S. government agency obligations	—	66,906	—	66,906
U.S. government obligations	11,190	—	—	11,190
Cash and cash equivalents	12,460	—	—	12,460
Collateralized mortgage obligations	—	13,580	—	13,580
Total	$ 562,364	113,459	—	675,823

(4) Property, Plant, and Equipment

Property, plant, and equipment, net as of September 30 consists of the following (in thousands):

		2019	2018
Land and land improvements	$	28,144	21,158
Buildings		387,319	379,074
Equipment and furniture		352,859	338,973
Leasehold improvements		2,921	2,921
Buildings under capital leases		5,234	5,234
Property, plant, and equipment, gross		776,477	747,360
Less accumulated depreciation		(459,582)	(415,460)
Property, plant, and equipment, net		316,895	331,900
Construction in progress		25,321	9,244
Total property, plant, and equipment	$	342,216	341,144

Accumulated amortization for assets under capital lease obligations was $5,069,000 and $5,017,000 at September 30, 2019 and 2018, respectively.

(5) Other Assets

Other assets at September 30 consist of the following (in thousands):

		2019	2018
Investments in healthcare ventures	$	5,062	3,979
Insurance recoverable		6,906	6,672
Other		(86)	397
Total other assets	$	11,882	11,048

(6) Investments in Healthcare Ventures

Asante has the following investments in healthcare ventures at September 30 (in thousands):

	Ownership	2019	2018
CVISO Management Company, LLC	25.00 %	$ 134	197
Southern Oregon Linen Services	39.90	1,326	1,148
Surgery Center of Southern Oregon, LLC	20.00	1,291	1,309
The Women’s Center LLC	50.00	266	210
Propel Health	21.36	—	(675)
Investment in CVI Real Property	25.00	657	606
Others	varies	1,388	1,184
Total investments in healthcare ventures		$ 5,062	3,979

The investments in these ventures are accounted for on the equity method and are included in other assets, net in the accompanying consolidated balance sheets. Income (loss) from the equity investments in joint ventures, which was $1,026,000 and $(1,537,000) for the years ended September 30, 2019 and 2018, respectively, is included in other operating revenue in the accompanying consolidated statements of operations.

(7) Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations at September 30 consist of the following (in thousands):

	2019	2018
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2002-B, maturing in varying annual amounts, due 2034	$ 31,275	31,275
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2005-A (net of unamortized discount of $1,103 and $1,155, respectively), maturing in varying annual amounts, due 2040	57,897	57,845
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2010 (net of unamortized premium of $1,953 and $2,046, respectively), maturing in varying annual amounts, due 2040	115,428	120,586
Oregon Hospital Authority Direct Placement, maturing in varying annual amounts, due 2019 (2011 loan)	—	1,142
Oregon Hospital Authority Direct Placement, maturing in varying annual amounts, due 2022 (2015 loan)	8,166	10,790

		2019	2018
2016 Note, due 2023	$	10,753	13,578
2016 Medical Arts Building Note (MOB), due 2026		9,713	10,073
2016 Real Estate loan, due 2021		2,463	2,545
Ramsey Life Note		2,069	—
Ramsey Mutual Note		802	—
Ramsey BofA		4,162	—
Capital lease obligations		541	561
Total long-term debt and capital lease obligations		243,269	248,395
Less unamortized debt issuance costs		(6,918)	(7,351)
Less current portion		(12,174)	(12,693)
Total long-term debt and capital lease obligations, net of current portion	$	224,177	228,351

Annual maturities of long-term debt and the future minimum capital lease obligations, excluding net bond premium of $850, are as follows as of September 30, 2019 (in thousands):

		Long-term debt	Capital lease obligations, excluding interest
2020	$	12,153	21
2021		12,469	24
2022		21,549	26
2023		9,118	30
2024		9,356	33
Thereafter		177,233	407
Total long-term debt and capital lease obligations	$	241,878	541

(a) 2002 Series B Bonds

The Series B Bonds were issued in February 2002. The bonds are currently issued as seven-day auction rate bonds. Conversion to a different maturity period or to a fixed rate is available at Asante's option.

The interest on these bonds is reset every seven days by the auction process. Should current bondholders desire to sell more bonds than bids are received to purchase them, this would result in a failed auction. Failed auctions result in a reset of the interest rate for that issue at the failed auction rate (a calculated rate not to exceed 15.0%). A failed auction on these bonds does not result in a default or failure but could result in higher interest costs.

The 2002 Series B Bond auctions failed in 2008 and for each weekly auction thereafter through September 27, 2019. The average rate paid by Asante for the failed auction interest rate during the year ended September 27, 2019 was 4.28%. The rates for those failed auctions ranged between 3.14% and 4.88%.

In 2014, Asante advance refunded $51,025,000 of the 2002 Series B Bonds. As of September 30, 2019 and 2018, $51,025,000 of advance refunded bonds, which is considered extinguished on the statement of financial position, remained outstanding.

(b) 2005 Series A Bonds

The 2005 Series A Bonds were issued in November 2005. The bonds bear interest at a rate of 5.0%.

(c) 2010 Series Bonds

The 2010 Series Bonds were issued in February 2010. The bonds were issued as fixed-rate securities, with maturities beginning in 2012 and final maturity in 2040. The bonds bear interest ranging from 3.0% to 5.5%.

(d) 2011 Loan

The 2011 loan was issued as a direct placement to fund a portion of information system installation and implementation costs. The loan has a fixed rate with an effective-interest rate of 1.92%. The loan is repaid monthly and matured in December 2018.

(e) 2015 Loan

The 2015 loan was issued on September 30, 2015 as a direct placement loan to fund refinancing of a portion of the 2010 bonds, which was completed in October 2015. The loan has a fixed interest rate of 1.81%. The loan is repaid monthly and matures in 2022.

(f) 2016 Note

The loan was issued in May 2016 as a direct placement loan to fund refinancing of a portion of the 2005 bonds and to finance capital purchases. The loan has a fixed interest rate of 1.58%. The loan is repaid monthly and matures in May 2023.

(g) 2016 MOB Note

The note was issued in August 2016 related to a medical office building purchase. The loan has a fixed rate of 6% with a 20-year amortization and a 10-year maturity. The loan is paid monthly.

(h) 2016 Real Estate Loan

The loan was issued in August 2016 as a direct placement loan to fund the purchase of a medical office building. The loan has a fixed interest rate of 1.82%. The loan is repaid monthly and matures in May 2021.

(i) Ramsey Life Note

The life note was assumed in March 2019 related to a medical office building purchase. The loan has a fixed rate of 4.5% and matures in April 2028. The loan is paid monthly.

(j) Ramsey Mutual Note

The mutual note was assumed in March 2019 related to a medical office building purchase. The loan has a fixed rate of 4.5% and matures in April 2028. The loan is paid monthly.

(k) Ramsey Loan

The loan was issued in March 2019 related to a medical office building purchase. The loan has a fixed rate of 3.63% with a 25-year amortization and a 10-year maturity. The loan is paid monthly.

(l) Line of Credit and Guarantees

Asante has a $10,000,000 revolving line-of-credit arrangement with a commercial bank. The line of credit has an interest rate of the daily LIBOR plus 0.500% (1.821% at September 30, 2019). There were borrowings of $0 and $0 against the line at September 30, 2019 and 2018, respectively. The line of credit expires on July 31, 2020.

Asante guarantees a loan for CVI Real Property, LLC, which owns a building on the ARRMC campus. The amount of this loan was $3,219,000 and $3,362,000 at September 30, 2019 and 2018, respectively.

Asante has a 25% guarantee of indebtedness for CVISO Management Company, LLC. This guarantee is for an operating line of credit in an amount up to $500,000. There was no balance outstanding on the line of credit at September 30, 2019 or 2018.

Asante guarantees a loan for The Women's Center, LLC, which owns a building adjacent to the ATRMC campus. The amount of this loan was $4,747,796 and $4,920,000 at September 30, 2019 and 2018, respectively.

(m) Debt Covenants

The bond indentures and other loan agreements contain, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of debt service coverage and other ratios. Management believes that Asante is in compliance with these covenants as of September 30, 2019.

(8) Retirement Plan

Asante sponsors the Asante Retirement Plan and Trust, a defined-contribution plan, which has two components: the matching plan and the basic plan. Under the basic plan, Asante contributes 3% of the employee's salary to a tax deferred account. All eligible employees receive this contribution, whether or not they contribute to a tax deferred account. Under the matching plan, after completion of one year of service, Asante matches 50% of the employee's contribution, up to a maximum match of 3% of the employee's pay. To be eligible for both the basic and matching plans, employees must work at least one year and maintain a work level of at least 1,000 hours per year. Contributions are funded every two weeks and are fully and immediately vested. Costs related to these defined-contribution plans for Asante totaled $19,455,000 and $17,566,000 for the years ended September 30, 2019 and 2018, respectively.

(9) Defined-Benefit Pension Plan

Asante sponsors a noncontributory defined-benefit pension plan (the Plan), covering certain AACH employees and retirees who meet requirements as specified in the Plan. The assets of the Plan are available to pay the benefits of all eligible employees of the Plan. The Plan was frozen effective December 31, 2006. No new participants have been admitted to the Plan after this date, and no additional benefits continue to accrue. Benefits earned before the Plan was frozen will continue to be paid as participants qualify to receive the benefits.

The following table sets forth disclosures related to the Plan in accordance with FASB ASC Section 715-20-65, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of September 30, 2019 and 2018 (in thousands):

		2019	2018
Change in projected benefit obligation:			
Projected benefit obligation (PBO) at beginning year	$	38,669	43,387
Interest cost		1,531	1,551
Actuarial gain (loss) on PBO, net		5,209	(3,254)
Benefits paid		(1,602)	(3,015)
Projected benefit obligation at year-end	$	43,807	38,669
Change in fair value of plan assets:			
Fair value of assets at beginning of year	$	26,370	24,078
Contributions		2,172	3,315
Actual return on plan assets		623	1,992
Benefits paid		(1,602)	(3,015)
Fair value of assets at end of year	$	27,563	26,370
Reconciliation of funded status:			
Funded status – liability	$	16,244	12,299
Net amount recognized	$	16,244	12,299

Asante immediately recognizes all changes in funded status within excess of revenue over expenses at each funding date.

The accumulated benefit obligation for the Plan is the same as the projected benefit obligation at September 30, 2019 and 2018.

Net periodic (benefit) cost includes the following components and is included in nonoperating Other, net in the accompanying consolidated statements of operations (in thousands):

		2019	2018
Interest cost	$	1,531	1,551
Expected return on plan assets		(1,596)	(1,519)
Recognized actuarial loss (gain)		6,182	(3,727)
Net periodic pension cost (benefit)		6,117	(3,695)
Other changes in pension liability		—	192
Total pension expense (benefit)	$	6,117	(3,503)

Assumptions

Asante used the following actuarial assumptions to determine its benefit obligations at September 30, 2019 and 2018:

	2019	2018
Discount rate	2.94 %	4.06 %

Asante used the following actuarial assumptions to determine its net periodic benefit cost for the years ended September 30, 2019 and 2018:

	2019	2018
Discount rate	4.06 %	3.65 %
Expected long-term rate of return on plan assets	6.00	6.00

The source data for the discount rate used to determine the benefit obligation was a universe of AA or higher rated U.S. dollar – denominated bonds with similar maturities to the projected benefit payments. The expected long-term rate of return on plan assets was based on Asante's asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions.

The mortality assumptions were based on the RP-2014 table with MP-2018 projections as of September 30, 2019.

Pension plan assets are managed according to an investment policy adopted by the Plan's trustees. Professional investment managers are retained to manage specific asset classes, and professional consulting is utilized for investment performance reporting. The primary objective of the Plan's trustees is to achieve the highest possible total return commensurate with safety and preservation of capital in real, inflation-adjusted terms. The objective includes having funds invested in the long term, which protect the principal and produce returns sufficient to meet future benefit obligations. The investment policy includes an asset allocation that includes equity securities, debt securities, and cash/other investments. The target allocations are:

Asset class	Minimum	Maximum	Target
U.S. short-term fixed income	12.0%	18.0%	15.0%
High-yield fixed income	4.8	7.2	6.0
U.S. equity core	38.4	57.6	48.0
International equity core	16.0	24.0	20.0
Liquid alternatives	9.0	13.0	11.0

Assets are rebalanced annually when balances fall outside of the approved range for each asset class unless unusual circumstances warrant more immediate action.

The following is a description of the valuation methodology used for plan assets measured at fair value:

- Mutual funds – Valued based on published values representing transactions in active markets

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. In accordance with FASB ASC Topic 820, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. See note 3 for the definitions of the three levels within the fair value hierarchy.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2019 (in thousands):

		Level 1	Level 2	Level 3	Total fair value
Cash and equivalents	$	554	—	—	554
Mutual funds:					
Large cap		7,293	—	—	7,293
Mid cap		4,538	—	—	4,538
Small cap		1,236	—	—	1,236
International		2,858	—	—	2,858
Fixed income		6,754	—	—	6,754
High yield		1,054	—	—	1,054
Other		3,276	—	—	3,276
Total plan assets at fair value	$	27,563	—	—	27,563

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2018 (in thousands):

		Level 1	Level 2	Level 3	Total fair value
Cash and equivalents	$	161	—	—	161
Mutual funds:					
Large cap		5,108	—	—	5,108
Mid cap		2,723	—	—	2,723
Small cap		1,355	—	—	1,355
International		2,791	—	—	2,791
Fixed income		7,908	—	—	7,908
High yield		1,033	—	—	1,033
Other		5,291	—	—	5,291
Total plan assets at fair value	$	26,370	—	—	26,370

Cash Flows

Asante's policy with respect to funding the Plan is to fund a least the minimum required by the Employee Retirement Income Security Act of 1974, as amended, plus such additional amounts deemed appropriate. In fiscal year 2020, Asante expects to contribute approximately $2,210,000 to the Plan.

Benefit payments are expected to be paid as follows in future years (in thousands):

	Pension benefits
2020	$ 2,085
2021	1,979
2022	2,021
2023	2,088
2024	2,135
2025–2029	11,212

Expected benefit payments presented above are based on actuarial estimates. Actual benefit payments may vary significantly from these estimates.

(10) Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Asante 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 include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, Asante bills patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Revenue for performance obligations satisfied over time is recognized based on actual goods or services provided. Generally, performance obligations satisfied over time relate to patients in Asante's hospitals receiving inpatient acute care services. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and Asante does not believe it is required to provide additional goods or services to the patient. The timing of revenue and recognition of substantially all services is at the time services are rendered.

Asante determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with Asante's policy, and/or implicit price concessions provided to uninsured patients. Asante determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. Asante determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Asante has agreements with Medicare and Medicaid programs and various other payors, which provide for payments to Asante at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare/Medicaid – Inpatient acute care services rendered to these program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The majority of Medicare outpatient services are reimbursed based on the prospective payment system known as Ambulatory Payment

Classification. Asante is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by Asante and audits thereof by the third-party payors.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Asante's historical settlement activity and are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments from finalization and adjustment of prior years' cost reports and other third-party settlement estimates resulted in a decrease in net patient service revenue of approximately $804,000 for September 30, 2019 and an increase of $82,000 for the year ended September 30, 2018.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance. Asante also provides services to uninsured patients and offers those uninsured patients a discount from standard charge. Asante estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended September 31, 2019 and 2018 was not significant.

Consistent with Asante's mission, Asante provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its financial assistance policy. Therefore, Asante has determined it has provided price concessions to uninsured patients and patients with uninsured balances. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts Asante expects to collect based on its collection history with those patients who have been determined to qualify for financial assistance.

Management evaluates revenue by nature in the following categories (in thousands):

		2019	2018
Revenue by payor:			
Medicare	$	395,160	345,601
Medicaid		164,366	151,819
Commercial and others		398,155	347,839
Private pay		3,360	4,516
	$	961,041	849,775

		2019	2018
Patient revenue:			
Inpatient revenue	$	444,174	426,611
Outpatient revenue		516,866	423,164
	$	961,040	849,775

(11) Charity and Community Benefit

Asante provides services without charge, or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. Asante also provides services to patients covered under government programs that pay less than established costs. The estimated cost of charges forgone is determined by multiplying forgone charges by the ratio of gross operating expenses divided by gross operating revenue. The estimated cost in excess of reimbursement received for these programs at September 30 are summarized in the chart below (in thousands):

		2019	2018
Cost of charges forgone:			
Charity care services	$	7,768	8,879
Medicaid services, net of reimbursement		58,938	56,972
Medicare services, net of reimbursement		88,869	80,042
Other public services		5,488	5,274
Total charity and government programs	$	161,063	151,167

Asante prides itself on providing high-quality, accessible, and cost-effective care in all areas, thus allowing it to achieve its mission, which includes offering a broad range of health programs and services to the community. In some cases, the revenue from these needed programs do not cover the costs of the program. These programs are offered due to community need and so reflect additional support provided by Asante to the community. Among these services are behavioral health programs, obstetrics, maternal fetal medicine, and lab outreach programs.

(12) Functional Classification of Operating Expenses

Asante provides patient services and support services. Support services include costs that are not directly related to provision of patient services. Asante leadership drives the support costs, which benefit the entire organization. Costs that are directly related to provision of patient services are allocated to patient services.

(Continued)

The following table is a summary of management's functional classification of operating expenses for the years ended September 30 (in thousands):

		2019		
		Support services	Patient services	Total
Salaries and benefits	$	125,824	399,591	525,415
Supplies		10,696	177,708	188,404
Purchased services		43,333	24,330	67,663
Professional fees		13,967	1,679	15,646
Repairs and maintenance		3,504	9,007	12,511
Insurance		653	2,141	2,794
Rent and utilities		10,201	1,240	11,441
Interest and amortization		11,223	—	11,223
Depreciation		48,344	—	48,344
Provider tax		—	45,945	45,945
Other		11,404	2,358	13,762
Total	$	279,149	663,999	943,148

		2018		
		Support services	Patient services	Total
Salaries and benefits	$	113,520	378,956	492,476
Supplies		10,502	139,139	149,641
Purchased services		18,707	35,621	54,328
Professional fees		13,288	1,680	14,968
Repairs and maintenance		4,108	7,829	11,937
Insurance		1,168	5,613	6,781
Rent and utilities		9,887	1,551	11,438
Interest and amortization		10,799	—	10,799
Depreciation		50,360	—	50,360
Provider tax		—	41,964	41,964
Other		5,055	1,969	7,024
Total	$	237,394	614,322	851,716

(13) Liquidity

As of September 30, 2019, Asante has working capital excess of $132,594 and average days (based on normal expenditures) cash on hand of 319 days.

(Continued)

The table below represents financial assets available for general expenditures within one year at September 30, 2019:

		2019	2018
Financial assets at year end:			
Cash and cash equivalents	$	71,145	48,323
Accounts receivable, net		121,580	113,314
Investments		657,906	634,373
Total financial assets	$	850,631	796,010

Asante has other assets limited to use for donor-restricted purposes and debt service. Additionally, certain other foundation donor restricted assets are designated for future capital expenditures.

These assets limited to use, which are more fully described in note 2(m), are not available for general expenditure within the next year and are not reflected in the amounts above.

Additionally, Asante maintains a $10 million line of credit, as discussed in more detail in note 7(l). As of September 30, 2019, $10 million remained available on the System's line of credit.

(14) Commitments and Contingencies

(a) Risk Management

In the ordinary course of business, Asante is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. However, management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the years ended September 30, 2019 and 2018.

(b) Regulations and Litigation

The healthcare industry is subject to various laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters, such as licensure, accreditation, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has remained high with respect to investigations and allegations concerning possible violations by healthcare providers of regulations, which could result in the expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments of patient services previously billed and collected. Management believes that Asante is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations; however, 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.

In addition, Asante becomes involved in litigation and other regulatory investigations arising in the ordinary course of business. After consultation with legal counsel, management believes that these matters will be resolved without causing a material adverse effect on Asante's future consolidated financial position or results of operations.

(c) Operating Leases

Asante leases various buildings, office space, and equipment under noncancelable operating leases. These leases expire at various times and have various renewal options. Rent expense related to these leases was $3,430,000 and $4,382,000 for the years ended September 30, 2019 and 2018, respectively. Future minimum lease commitments at September 30, 2019 under noncancelable operating leases with initial terms of one year or more are as follows (in thousands):

		September 30, 2019
2020	$	3,216
2021		2,516
2022		2,119
2023		1,623
2024		1,045
Thereafter		1,100

(d) Litigation

Asante is involved in litigation and other routine regulatory investigations arising in the ordinary course of business. In management's opinion, after consultation with legal counsel, these matters will be resolved without material adverse effect on Asante's consolidated financial position or results from operations.

(e) Collective Bargaining Agreements

Approximately 16% of Asante's employees are covered by a collective bargaining agreement. All employees are bedside nurses with the Oregon Nurses Association working at Asante Regional Medical Center. One contract covers all of the employees in this bargaining unit, and the current contract expires June 30, 2020.

(f) Purchase Commitments

Asante has committed to various construction and information technology purchases, including new Ultrasounds, Cath Lab Axiom, Generators, Mobile Communication, Epic Beacon Module, DaVinci Xi, BHU Expansion, and ARRMC Parking Garage. As of September 30, 2019, the future commitments for these projects total approximately $50,700,000.

(15) Subsequent Events

Asante has evaluated the impact of subsequent events through December 11, 2019, the date on which the consolidated financial statements were issued and has determined that all subsequent events have been appropriately reflected in the accompanying consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

September 30, 2019

(In thousands)

Assets		Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Current assets:					
Cash and cash equivalents	$	65,542	5,603	—	71,145
Assets whose use is limited, current portion		12,174	—	—	12,174
Patient accounts receivable, net		116,945	4,635	—	121,580
Accrued interest and other receivables		21,429	2,219	—	23,648
Inventories		15,939	—	—	15,939
Prepaid expenses		12,216	280	—	12,496
Total current assets		244,245	12,737	—	256,982
Intercompany receivable (payable)		128,636	(129,503)	867	—
Assets whose use is limited:					
Restricted by donors		—	17,102	—	17,102
Beneficial interest in AACH Foundation		—	1,466	—	1,466
Board and other designated assets		12,174	12,632	—	24,806
		12,174	31,200	—	43,374
Less amount required to meet current obligations		12,174	—	—	12,174
		—	31,200	—	31,200
Marketable securities		637,412	20,494	—	657,906
Property, plant, and equipment, net		316,209	26,007	—	342,216
Land held for future use		10,809	—	—	10,809
Beneficial interest in Asante Foundation		29,766	—	(29,766)	—
Other assets, net		15,600	1,555	(5,273)	11,882
Total assets	$	1,382,677	(37,510)	(34,172)	1,310,995

(Continued)

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

September 30, 2019

(In thousands)

Liabilities and Net Assets		**Asante Obligated Group**	**Other affiliates**	**Eliminations**	**Consolidated total**
Current liabilities:					
Accounts payable	$	16,524	235	—	16,759
Payroll, payroll taxes, and related benefits		42,259	1,240	—	43,499
Self-insurance liability, current portion		8,948	4,085	—	13,033
Estimated reimbursement due to government agencies, net		4,505	—	—	4,505
Other current liabilities		19,183	15,235	—	34,418
Current portion of long-term and capital lease obligations		12,174	—	—	12,174
Total current liabilities		103,593	20,795	—	124,388
Long-term debt and capital lease obligations, net of current portion and unamortized bond cost		224,177	—	—	224,177
Pension benefit obligation		16,244	—	—	16,244
Other long-term liabilities		29,681	(3,065)	1,120	27,736
Total liabilities		373,695	17,730	1,120	392,545
Net assets:					
Net assets without donor restrictions		991,874	(79,333)	(12,665)	899,876
Net assets with donor restrictions		17,108	24,093	(22,627)	18,574
Total net assets		1,008,982	(55,240)	(35,292)	918,450
Total liabilities and net assets	$	1,382,677	(37,510)	(34,172)	1,310,995

See accompanying independent auditors' report.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Operations and Changes in Net Assets Information

Year ended September 30, 2019

(In thousands)

	Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Revenue and other support:				
Net patient service revenue	$ 898,517	62,523	—	961,040
Other operating revenue	11,078	9,010	—	20,088
Total revenue and other support	909,595	71,533	—	981,128
Operating expenses:				
Salaries and benefits	441,630	83,785	—	525,415
Supplies	184,243	4,161	—	188,404
Purchased services	59,122	8,541	—	67,663
Professional fees	15,291	355	—	15,646
Repairs and maintenance	12,278	233	—	12,511
Insurance	(813)	3,607	—	2,794
Rent and utilities	11,220	221	—	11,441
Interest and amortization	10,663	560	—	11,223
Depreciation	45,658	2,686	—	48,344
Provider tax expense	45,945	—	—	45,945
Other	10,754	776	2,232	13,762
Total operating expenses	835,991	104,925	2,232	943,148
Operating income (loss)	73,604	(33,392)	(2,232)	37,980
Nonoperating income	18,489	(7,607)	—	10,882
Excess (deficit) of revenues over expenses	92,093	(40,999)	(2,232)	48,862
Net assets without restrictions released from restrictions used for purchases of property, plant, and equipment	12	12	(12)	12
Other	(197)	—	—	(197)
Increase (decrease) in net assets without donor restrictions	91,908	(40,987)	(2,244)	48,677
Net assets with donor restriction:				
Contributions and investment income	3,965	3,965	(3,965)	3,965
Net assets released from restrictions	(1,372)	(1,372)	1,372	(1,372)
Increase (decrease) net assets with restrictions	2,593	2,593	(2,593)	2,593
Increase (decrease) in net assets	94,501	(38,394)	(4,837)	51,270
Net assets, beginning of year:				
Without donor restrictions	899,966	(32,821)	(15,946)	851,199
With donor restrictions	14,515	15,975	(14,509)	15,981
Net assets, end of year	$ 1,008,982	(55,240)	(35,292)	918,450

See accompanying independent auditors' report.