TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Information

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

TUALITY HEALTHCARE AND SUBSIDIARIES

Table of Contents

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 financial statements of Tuality Healthcare and its subsidiaries, as of June 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 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, 2019 and 2018, and the changes in their net assets 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 1 to the consolidated financial statements, in 2019, Tuality Healthcare adopted new accounting guidance in accordance with Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities (Topic 958)*. Our opinion is not modified in respect to this matter.

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 33 through 35 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 14, 2019

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2019 and 2018

Assets	**2019**	**2018**
Current assets:		
Cash and cash equivalents	$ 3,716,600	15,201,900
Short-term investments	524,600	814,800
Patient accounts receivable, net of allowance for uncollectible accounts of $3,943,100 and $3,354,300	30,624,700	26,195,400
Other receivables	7,713,000	4,975,200
Supplies inventory	3,758,300	3,427,900
Prepaid expenses and other	2,791,300	1,994,500
Current portion of assets whose use is limited	972,900	954,000
Total current assets	50,101,400	53,563,700
Assets whose use is limited:		
Board-designated funds	35,489,400	38,305,400
Under bond indenture agreement – held by Trustee	900	900
Donor-restricted – specific purpose	4,792,700	4,408,900
Donor-restricted – endowment	2,782,200	2,788,000
Required for current liabilities	(972,900)	(954,000)
Total assets whose use is limited	42,092,300	44,549,200
Property and equipment:		
Property and equipment, net of accumulated depreciation and amortization	59,756,100	49,402,300
Other assets:		
Other receivables – noncurrent	1,749,000	1,315,400
Investments in unconsolidated affiliates	2,136,600	3,023,200
Deferred compensation plan	2,357,800	2,265,300
Cash value of life insurance	529,300	502,700
Deferred costs and other	230,200	230,200
Intangible assets	1,687,000	1,747,300
Goodwill	318,500	318,500
Total other assets	9,008,400	9,402,600
Total assets	$ 160,958,200	156,917,800

(Continued)

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2019 and 2018

Liabilities and Net Assets	2019	2018
Current liabilities:		
Accounts payable	$ 15,390,900	14,222,000
Accrued payroll and employee benefits	12,301,700	11,341,400
Estimated liabilities for Medicare and Medicaid settlements	452,800	562,300
Long-term debt due within one year	1,047,000	1,191,900
Accrued bond interest payable	97,900	104,000
Total current liabilities	29,290,300	27,421,600
Long-term liabilities:		
Long-term debt, net of amount due within one year	13,069,000	14,092,900
Liability for pension benefits	51,789,600	41,420,700
Other long-term liabilities	20,509,200	11,892,200
Total long-term liabilities	85,367,800	67,405,800
Total liabilities	114,658,100	94,827,400
Net assets:		
Net assets without donor restrictions	38,542,600	54,733,400
Net assets with donor restrictions	7,757,500	7,357,000
Total net assets	46,300,100	62,090,400
Total liabilities and net assets	$ 160,958,200	156,917,800

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

For the years ended June 30, 2019 and 2018

	2019	2018
Net patient service revenue:		
Patient service revenue (net of contractual allowances and discounts)	$ 203,114,800	188,998,200
Provision for bad debts	(11,986,900)	(11,893,900)
Total net patient service revenue	191,127,900	177,104,300
Other revenue:		
OHSU support	7,556,100	7,235,700
Other revenue	10,266,400	9,493,200
Total other revenue	17,822,500	16,728,900
Total revenue	208,950,400	193,833,200
Operating expenses:		
Salaries and wages	85,227,800	85,211,100
Employee benefits	22,035,500	21,824,400
Supplies and other expenses	75,934,700	67,247,300
Professional fees	18,533,900	11,643,900
Depreciation and amortization	8,176,600	7,408,600
Interest	733,800	739,300
Total operating expenses	210,642,300	194,074,600
Loss from operations	(1,691,900)	(241,400)
Other income:		
Realized income on investments whose use is limited by board designation	713,000	727,700
Gain on investments in affiliated companies	1,095,800	1,110,200
Gain on disposal of property and equipment	90,900	234,700
Other nonoperating expenses	—	(35,000)
Total other income	1,899,700	2,037,600
Excess of revenue over expenses	207,800	1,796,200
Contributions for property and equipment acquisition	29,100	89,500
Change in net unrealized gain on other-than-trading securities	623,100	500,600
Pension-related changes	(17,050,800)	3,091,800
(Decrease) increase in net assets without donor restrictions	$ (16,190,800)	5,478,100

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2019 and 2018

		2019	2018
Net assets without donor restrictions:			
Excess of revenue over expenses	$	207,800	1,796,200
Contributions for property and equipment acquisition		29,100	89,500
Change in net unrealized gain on other-than-trading securities		623,100	500,600
Pension-related changes		(17,050,800)	3,091,800
(Decrease) increase in net assets without donor restrictions		(16,190,800)	5,478,100
Net assets with donor restrictions:			
Gifts, grants, and bequests		1,523,300	1,430,500
Investment income		129,900	476,700
Net assets released from restrictions		(1,280,800)	(1,016,400)
Contributions for endowment funds		28,100	3,800
Increase in net assets with donor restrictions assets		400,500	894,600
Change in net assets		(15,790,300)	6,372,700
Net assets, beginning of year		62,090,400	55,717,700
Net assets, end of year	$	46,300,100	62,090,400

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended June 30, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	(15,790,300)	6,372,700
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		8,176,600	7,408,600
Net realized and unrealized gain on investments		(861,000)	(1,226,000)
Gain on investment in affiliated companies		(1,095,800)	(1,110,200)
Gain on disposal of property and equipment		(90,900)	(234,700)
Increase in cash value of life insurance		(26,600)	(28,500)
Restricted contributions and investment income received		(1,681,400)	(1,911,000)
Cash distributed from corporate joint venture		1,982,400	951,700
Changes in assets and liabilities that provided cash:			
Accounts receivable		(7,600,700)	(1,366,300)
Inventories		(330,400)	242,700
Prepaid expenses and other		(796,800)	1,236,100
Accounts payable		9,878,400	6,824,300
Accrued payroll and employee benefits		11,933,600	(8,805,000)
Estimated liabilities for Medicare and Medicaid settlements		(109,500)	84,200
Accrued bond interest		(6,100)	(5,900)
Net cash provided by operating activities		3,581,500	8,432,700
Cash flows from investing activities:			
Purchase of property and equipment		(20,555,300)	(13,064,800)
Proceeds from sales of property and equipment		1,486,700	793,400
Purchases of securities		(12,236,900)	(4,399,300)
Proceeds from sales of securities		15,733,600	3,732,200
Net investment in cash value life insurance		(92,500)	113,300
Net cash used in investing activities		(15,664,400)	(12,825,200)
Cash flows from financing activities:			
Proceeds from restricted contributions and investment income		1,681,400	1,911,000
Principal payments on long-term debt		(1,083,800)	(1,142,400)
Net cash provided by financing activities		597,600	768,600
Net decrease in cash and cash equivalents		(11,485,300)	(3,623,900)
Cash and cash equivalents, beginning of year		15,201,900	18,824,800
Cash and cash equivalents, end of year	$	3,716,600	15,200,900
Supplementary disclosures of cash flow information:			
Cash paid during the year for interest	$	673,000	693,700
Property, plant, and equipment acquired through capital lease		—	659,900
Property, plant, and equipment acquired through dissolution of joint venture		853,500	—

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 controlling 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 consolidated 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 11, 2019, 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 estimated to be uncollectible. Substantially all of Tuality's receivables are related to providing healthcare services to its hospitals' patients.

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 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 excess of revenue over expense unless the investments are trading securities.

(g) Supplies Inventory

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

(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, 2019 or 2018.

(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, 2019, 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.

(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.

(Continued)

(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) Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by Tuality has been limited by donors to a specific time period or purpose. Net assets with donor restrictions may have been restricted by donors to be maintained by Tuality in perpetuity or used during a specific time period.

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 condition is met or the intention to give becomes irrevocable. The gifts are reported as donor-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, net assets with donor restrictions are reclassified as net assets without donor restrictions 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.

(o) Income from Operations

Income from operations includes income from provision of patient services, as well as other revenue consisting primarily of Oregon Health & Science University (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.

(p) Excess of Revenue over Expenses

The consolidated statements of operations include excess of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other-than-trading securities, 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), and pension-related changes.

(q) OHSU Affiliation

On February 1, 2016, Tuality affiliated with 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 approximately $7,600,000 and $7,200,000 and operating cash flow support amounted to $6,200,000 and $2,600,000 million for the years ended June 30, 2019 and 2018, respectively. Operating cash flow support is a loan with the balance of $15,300,000 and $7,300,000 as of June 30, 2019 and 2018, respectively, included in other long-term liabilities. Cash flow support received after year end was $2,700,000.

(r) New Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 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 No. 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 No. 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 No. 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, 2019. 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 No. 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.

(s) Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued ASU No. 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. Tuality adopted this standard on July 1, 2018. The ASU requires a retrospective application of its provisions upon adoption.

(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, 2019 and 2018 is set forth in the following table. Investments are shown at estimated fair value at June 30, 2019 and 2018.

(i) Net Assets with Donor Restriction

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

		2019	2018
Net assets with donor restrictions:			
Education	$	5,383,500	5,293,200
Patient care		2,374,000	2,063,800
	$	7,757,500	7,357,000

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

	June 30, 2019				
	Cost or equity	Percentage of ownership		Investments	Income/(loss)
Raines Dialysis Center	Equity	20 %	$	829,300	420,500
Northwest Hospital Partnership, Inc.	Equity	50		465,700	—
Mountain States Healthcare	Cost	5		310,200	—
Noble Woods	Equity	22		276,400	286,800
West Coast Sourcing	Cost	1		5,000	—
Tuality / OHSU Cancer Center	Equity	NA		—	388,500
Tuality Health Alliance	Cost	33.3 %		250,000	—
			$	2,136,600	1,095,800

	June 30, 2018			
	Cost or equity	Percentage of ownership	Investments	Income/(loss)
Raines Dialysis Center	Equity	20 %	$ 269,000	(57,800)
Northwest Hospital Partnership, Inc.	Equity	50	332,200	—
Mountain States Healthcare	Cost	5	310,200	—
Noble Woods	Equity	22	360,400	74,900
West Coast Sourcing	Cost	1	5,000	—
Tuality / OHSU Cancer Center	Equity	50	1,170,500	(184,500)
Tuality Health Alliance	Cost	33.3	250,000	—
			$ 2,697,300	(167,400)

Tuality / OHSU Cancer Center:

Tuality owned a 50% equity interest in the Tuality / OHSU Cancer Center (TOCC), an Oregon limited liability company operating a radiation treatment center. The entity was dissolved as of December 31, 2018 and moved to Tuality Community Hospital. Tuality's equity investment of $1,000,000 was recorded as a payable upon dissolution.

Tuality charged TOCC management fees of $373,100 and $792,800 for the year ended June 30, 2019 and the six months ended December 31, 2018, respectively.

TOCC leased its building from Tuality prior to December 2018. Monthly rent payments were $11,400 through March 2018 and $11,700 beginning in April 2018 through December 2018. Total rents received on this property amounted to $70,200 and $137,300 for the year ended June 30, 2019 and the six months ended December 31, 2018, respectively. Rent payments were discontinued on January 1, 2019 after the joint venture was dissolved and the cancer center was moved to the main hospital entity at Tuality.

Summarized financial information from the unaudited financial statements of TOCC is below, as of and for the year ended June 30, 2019 and six months ended December 31, 2018:

	Tuality/OHSU Cancer Center	
	Years ended June 30	
	Six months ended December 31, 2018	2018
Current assets	$ —	1,495,700
Noncurrent assets	—	1,047,700
Current liabilities	—	144,800
Noncurrent liabilities	—	57,900
Partners' equity	3,142,800	2,341,100
Revenues	1,989,600	1,949,000
Net income/(loss)	$ 1,103,200	(369,000)

(Continued)

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. The Alliance is an unconsolidated affiliate, meaning financial data is not incorporated in Tuality's consolidated financial statements. 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 $3,910,700 and $3,312,900 for the years ended June 30, 2019 and 2018, respectively. Management fees receivable were $320,800 and $245,700 at June 30, 2019 and 2018, 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, 2019, management believes the net worth requirements have been met.

(b) Investment Income

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.

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.

(Continued)

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

		Net assets with donor restriction
Balance as of June 30, 2017	$	5,118,700
Investment income		365,500
Contributions		3,800
Appropriated for expenditure		(195,700)
Balance as of June 30, 2018		5,292,300
Investment income		79,600
Contributions		28,200
Appropriated for expenditure		(251,400)
Balance as of June 30, 2019	$	5,148,700

(3) Liquidity and Availability

As of June 30, 2019, Tuality Healthcare has working capital of $20,811,100 and 70 days cash on hand.

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following:

		2019	2018
Cash and cash equivalents	$	3,716,600	15,201,900
Short term investments		524,600	814,800
Patient accounts receivable, net		30,624,700	26,195,400
Other receivables		7,713,000	4,975,200
Assets limited to use, current portion		972,900	954,000
Board designated funds		35,489,400	38,305,400
	$	79,041,200	86,446,700

Certain board-designated and donor-restricted assets limited to use are available for general expenditure within one year in the normal course of operations. Other assets limited to use are for donor-restricted purposes, debt service, and for the professional and general liability. Additionally, certain board-designated assets are designated for future purposes beyond the next year and are not reflected in the amounts above. However, the board-designated amounts may be made available, if necessary.

As part of Tuality Healthcare's liquidity management plan, cash in excess of daily requirements are invested in short term investments and money market funds.

(4) 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, 2019 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	$ 18,500	18,500	—	—
Equity securities	296,300	296,300	—	—
Fixed income securities	209,800	—	209,800	—
Assets whose use is limited board designated funds:				
Cash and cash equivalents	162,900	162,900	—	—
Equity securities	7,980,600	7,980,600	—	—
Fixed income mutual funds	17,524,900	17,524,900	—	—
Under bond indenture:				
Cash and cash equivalents	900	900	—	—
Donor restricted:				
Cash and cash equivalents	269,200	269,200	—	—
Equity securities	4,253,800	4,253,800	—	—
Fixed income securities	3,051,900	—	3,051,900	—
Deferred compensation plan:				
Cash and cash equivalents	462,000	462,000	—	—
Equity securities	1,018,300	1,018,300	—	—
Fixed income securities	877,500	877,500	—	—
	36,126,600	$ 32,864,900	3,261,700	—
Investments valued at NAV as a practical expedient	9,806,000			
Total	$ 45,932,600			

Fair values of assets measured on a recurring basis at June 30, 2018 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	$	29,000	29,000	—	—
Equity securities		478,200	478,200	—	—
Fixed income securities		307,600	—	307,600	—
Assets whose use is limited board designated funds:					
Cash and cash equivalents		42,000	42,000	—	—
Equity securities		10,263,200	10,263,200	—	—
Fixed income mutual funds		19,008,500	19,008,500	—	—
Under bond indenture:					
Cash and cash equivalents		900	900	—	—
Donor restricted:					
Cash and cash equivalents		256,000	256,000	—	—
Equity securities		4,223,900	4,223,900	—	—
Fixed income securities		2,717,000	—	2,717,000	—
Deferred compensation plan:					
Cash and cash equivalents		9,700	9,700	—	—
Equity securities		2,248,800	2,248,800	—	—
Fixed income securities		6,800	6,800	—	—
		39,591,600	$ 36,567,000	3,024,600	—
Investments valued at NAV as a practical expedient		8,991,700			
Total	$	48,583,300			

Investments valued using the 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
		2019	2018	frequency	notice period
Limited partnerships	$	9,806,000	8,991,700	Monthly to annual	45–185 days

(5) 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 cost
- 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 $41,180,700 and $38,198,800 during the years ended June 30, 2019 and 2018, 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 $4,016,200 and $3,368,200 during the years ended June 30, 2019 and 2018, respectively. The cost of charity care provided is based on Tuality's estimated relationship of cost to charges.

(6) Net Patient Service Revenue and Patient Receivables

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 received final settlement notification by the Medicare fiscal intermediary through September 30, 2015.

(b) Medicaid

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

Tuality's Medicaid cost reports have been reviewed by DMAP through September 30, 2015.

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 years ended June 30, 2019 and 2018 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.

(7) Property and Equipment

A summary of property and equipment at June 30, 2019 and 2018 follows:

		2019	2018
Land and land improvements	$	8,338,500	8,543,400
Building and fixed equipment		99,474,800	99,660,300
Moveable equipment		91,867,800	94,960,500
Equipment under capital leases		9,666,700	9,826,500
		209,347,800	212,990,700
Less: accumulated depreciation and amortization		(164,262,300)	(169,793,900)
		45,085,500	43,196,800
Construction in progress		14,670,600	6,205,500
Property and equipment, net	$	59,756,100	49,402,300

(8) Intangible Assets

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 $1,928,600 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, 2019 and 2018 are as follows:

		2019	2018
Parking license	$	1,928,600	1,928,700
Noncompete covenant and other		380,500	380,500
		2,309,100	2,309,200
Less: accumulated amortization		(622,100)	(561,900)
	$	1,687,000	1,747,300

Amortization expense related to intangible assets was $60,300 and $76,700 for the years ended June 30, 2019 and 2018, respectively.

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

Fiscal year ending June 30:		
2020	$	76,700
2021		60,200
2022		54,700
2023		54,700
2024		46,700

(9) 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. These bonds were issued as private placement with a single financial institution for the life of the bond. 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 Obligated Group (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 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.

Under the Original Master Indenture, as amended, Tuality agreed to a number of covenants and conditions, which management believes have been met.

Long-term debt at June 30, 2019 and 2018 consists of the following:

		2019	2018
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 to October 2031	$	13,409,300	14,236,200
Present value of net minimum capital lease obligations		706,700	1,048,600
Total debt		14,116,000	15,284,800
Less: amounts due within one year		(1,047,000)	(1,191,900)
Long term debt, due after one year	$	13,069,000	14,092,900

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

		Long term debt	Capital leases	Total
Fiscal years ending:				
2020	$	883,000	163,700	1,046,700
2021		900,000	121,600	1,021,600
2022		925,000	128,700	1,053,700
2023		955,000	136,200	1,091,200
2024		980,000	144,100	1,124,100
Thereafter		8,766,000	12,400	8,778,400
	$	13,409,000	706,700	14,115,700

(10) 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 March 2019 and 2028.

Minimum future obligations on leases in effect at June 30, 2019 are:

		Capital leases		Operating leases
Fiscal years ending:				
2020	$	201,400		3,629,500
2021		149,300		3,635,200
2022		149,300		3,646,800
2023		149,300		3,539,300
2024		149,300		1,065,900
Thereafter		12,500		295,100
Total minimum lease payments		811,100	$	15,811,800
Less: amounts representing interest		104,400		
Present value of net minimum lease payments	$	706,700		

Rental expense under noncancelable operating leases with initial terms of one year or greater was $3,467,900 and $3,333,800 for the years ended June 30, 2019 and 2018, respectively.

(11) 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 $322,093 and $610,470 for the years ended June 30, 2019 and 2018, 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 and fixed income. The balance in the deferred compensation plan at June 30, 2019 and 2018 was $2,357,800 and $2,265,300, respectively, 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, 2019 and 2018:

		2019	2018
Change in benefit obligation:			
Projected benefit obligation at July 1	$	115,976,600	118,009,900
Service cost		3,568,700	4,018,400
Interest cost		5,196,200	4,986,900
Actuarial (gain)/loss		15,738,800	(4,289,900)
Expenses paid		(1,841,800)	(1,466,300)
Benefits paid		(4,757,000)	(5,282,400)
Projected benefit obligation at June 30		133,881,500	115,976,600
Change in plan assets:			
Fair value of assets at July 1, and October 1, respectively		74,555,900	69,283,800
Actual return on plan assets		3,865,800	3,361,800
Employer contribution		10,269,000	8,659,000
Expenses paid		(1,841,800)	(1,466,300)
Benefits paid		(4,757,000)	(5,282,400)
Fair value of assets at June 30		82,091,900	74,555,900
Funded status	$	(51,789,600)	(41,420,700)

Amounts recognized in the consolidated balance sheets and the statement of changes in net assets as of and for the years ended June 30, 2019 and 2018 consisted of:

		2019	2018
Liability for pension benefits	$	51,789,600	41,420,700
Pension-related changes		(17,050,800)	3,091,800

Amounts recognized as changes in net assets without donor restrictions but not yet included in net periodic pension cost as of June 30, 2019 and 2018 consisted of:

		2019	2018
Net loss	$	68,296,600	52,344,600
Prior service cost		(3,571,300)	(4,670,100)
Total	$	64,725,300	47,674,500

The accumulated benefit obligation for the defined-benefit plans was $133,881,500 and $115,290,900 at June 30, 2019 and 2018, respectively.

		2019	2018
Components of net periodic benefit cost:			
Service cost	$	3,568,700	4,018,400
Interest cost		5,196,200	4,986,900
Expected return on plan assets		(5,360,100)	(4,961,500)
Amortization of prior service cost		(1,098,800)	(1,098,800)
Amortization of net actuarial gain		1,281,100	1,500,400
Net periodic pension cost	$	3,587,100	4,445,400

The estimated net loss and prior service cost that will be amortized from changes in net assets without donor restrictions into net periodic pension cost over the next fiscal year are $1,970,100 and $(1,098,847), respectively.

(a) Assumptions

	June 30,		
	2019	2018	
Weighted average assumptions used to determine benefit obligations at June 30:			
Discount rate	3.51 %	4.65 %	
Rate of compensation increase	3.00	3.00	*
Weighted average assumptions used to determine net periodic benefit cost for period ended			
Discount rate	4.65 %	4.25 %	
Expected long-term return on plan assets	6.75	6.75	
Rate of compensation increase	3.00	3.00	*

* 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 2019 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**
Non-Traded Alternative	7.5 %	8.0 %
Cash	5.0	7.0
Equity	39.0	44.0
Fixed	34.0	33.0
Hedged	14.5	8.0
Total	100.0 %	100.0 %

(c) Cash Flows

Tuality expects to contribute $9,735,000 to its pension plan in fiscal year 2020.

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

Fiscal year ending June 30:		
2020	$	5,666,100
2021		5,734,400
2022		5,913,900
2023		6,039,100
2024		6,299,600
Following five years		33,756,300

The following table presents Tuality's pension plan assets measured at fair value at June 30, 2019:

		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	$ 3,956,700	3,956,700	—	—
Equity securities:				
Fixed income	233,400	233,400	—	—
Corporate bonds and debentures	1,125,300	—	1,125,300	—
Municipal bonds	170,900	—	170,900	—
U.S. government securities	1,553,000	1,553,000	—	—
Registered investment companies:				
Fixed income	24,239,500	24,239,500	—	—
Large cap	33,342,700	33,342,700	—	—
Mid cap	5,961,600	5,961,600	—	—
Small cap	4,616,200	4,616,200	—	—
	75,199,300	$ 73,903,100	1,296,200	—
Investments valued at NAV as a practical expedient	6,892,600			
Total	$ 82,091,900			

The following table presents Tuality's pension plan assets measured at fair value at June 30, 2018:

	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Fair value measurements at reporting date using		
Interest bearing cash	$ 670,200	670,200	—	—
Equity securities:				
Fixed income	676,300	676,300	—	—
Large cap	141,000	141,000	—	—
Mid cap	65,700	65,700	—	—
Investment contract with insurance company	4,258,900	4,258,900	—	—
Corporate bonds and debentures	1,077,000	—	1,077,000	—
Municipal bonds	156,200	—	156,200	—
U.S. government securities	53,500	53,500	—	—
Registered investment companies:				
Fixed income	13,239,500	13,239,500	—	—
Large cap	34,842,100	34,842,100	—	—
Mid cap	9,260,500	9,260,500	—	—
Small cap	5,485,400	5,485,400	—	—
	69,926,300	$ 68,693,100	1,233,200	—
Investments valued at NAV as a practical expedient	4,629,600			
Total	$ 74,555,900			

Investments valued using the 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
		2019	**2018**	**frequency**	**notice period**
Alternative investments	$	6,892,600	4,629,600	Event driven	NA

(12) Functional Expenses

Tuality provides general healthcare services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended June 30, 2019 and 2018:

		Year ended June 30, 2019			
		THC program service	**THC Management and general**	**Affiliated entities**	**Total**
Salaries and wages	$	83,300,900	1,353,300	573,600	85,227,800
Employee benefits		21,479,600	341,600	214,300	22,035,500
Supplies and other expense		73,045,700	1,000,300	1,888,700	75,934,700
Professional fees		18,464,000	69,900	—	18,533,900
Depreciation and amortization		7,118,500	790,900	267,200	8,176,600
Interest		733,800	—	—	733,800
Total	$	204,142,500	3,556,000	2,943,800	210,642,300

		Year ended June 30, 2019			
		THC program service	**THC Management and general**	**Affiliated entities**	**Total**
Salaries and wages	$	83,844,100	844,600	522,400	85,211,100
Employee benefits		21,439,100	216,000	169,300	21,824,400
Supplies and other expense		64,690,700	709,200	1,847,400	67,247,300
Professional fees		11,576,700	67,200	—	11,643,900
Depreciation and amortization		6,433,300	714,800	260,500	7,408,600
Interest		739,300	—	—	739,300
Total	$	188,723,200	2,551,800	2,799,600	194,074,600

The financial statements report certain expense categories that are attributable to more than one healthcare service or management and support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, and other occupancy costs, are allocated to a functional region based on a square-footage or units-of-service basis. In some instances, costs are allocated according to reasonable estimates of general overhead.

(13) 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, 2019, accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. At June 30, 2019, Tuality's uninsured cash balances totaled $2,807,200.

(b) Patient Receivables

The mix of net patient receivables was as follows at June 30, 2019 and 2018:

		2019	2018
Medicare and Medicare Managed Care	$	39 %	47 %
Medicaid and Medicaid Managed Care		15	18
Managed Care Plans		5	24
Workers Compensation		25	2
Other		16	9
	$	100 %	100 %

(14) Commitments and Contingencies

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

Tuality has different insurance arrangements 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. On January 1, 2018, Tuality nonrenewed the arrangement with MSH and will continue to pay run off claims under the prior policies.

Effective January 1, 2018 Tuality entered into an insurance program with UMIA. All professional liability and general liability claims under the policy are subject to a $25,000 deductible indemnity payment per claim. All personal property claims are subject to a $250 deductible. All Employee Benefits Administration Liability Claims are subject to a $1,000 deductible. This policy 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, 2019 and 2018 for general and professional liability risks was $2,887,000 and $2,946,300, respectively, and recorded as an account payable. The related insurance receivable recorded at June 30, 2019 and 2018 was $1,749,000 and $1,674,500, respectively and recorded as other receivable.

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, 2019, 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, was a guarantor of debt and lease obligations of an affiliate, TOCC. Tuality's guaranteed portion of TOCC's debt and lease obligations expired on November 2018, and were paid in full at June 30, 2019.

SUPPLEMENTARY INFORMATION

Schedule

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Balance Sheet Information

June 30, 2019 and 2018

Assets	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany Eliminations	Consolidated June 30, 2019	Consolidated June 30, 2018
Current assets:								
Cash and cash equivalents	$ (136,600)	998,800	1,587,800	1,266,600	3,716,600	—	3,716,600	15,201,900
Short-term investments	—	—	—	524,600	524,600	—	524,600	814,800
Patient accounts receivable	34,289,300	278,500	—	—	34,567,800	—	34,567,800	29,529,700
Allowance for uncollectible accounts	(3,923,100)	(20,000)	—		(3,943,100)	—	(3,943,100)	(3,334,300)
Other receivables	7,564,300	(33,600)	—	182,300	7,713,000	—	7,713,000	4,975,200
Inventory of supplies	3,239,700	518,600	—	—	3,758,300	—	3,758,300	3,427,900
Prepaid expenses and other	2,723,100	27,200	41,000	—	2,791,300	—	2,791,300	1,994,500
Assets whose use is limited:								
Required for current liabilities	972,900	—	—	—	972,900	—	972,900	954,000
Due from subsidiaries	1,629,200	—	4,528,700	108,000	6,265,900	(6,265,900)	—	—
Total current assets	46,358,800	1,769,500	6,157,500	2,081,500	56,367,300	(6,265,900)	50,101,400	53,563,700
Assets whose use is limited:								
Board-designated funds	35,489,400	—	—	—	35,489,400	—	35,489,400	38,305,400
Under bond indenture agreement – held by Trustee	900	—	—		900	—	900	900
Donor-restricted – specific purpose	—	—	—	4,792,700	4,792,700	—	4,792,700	4,408,900
Donor-restricted – endowment	—	—	—	2,782,200	2,782,200	—	2,782,200	2,788,000
Less amount required for current liabilities	(972,900)	—	—	—	(972,900)	—	(972,900)	(954,000)
Total assets whose use is limited	34,517,400	—	—	7,574,900	42,092,300	—	42,092,300	44,549,200
Property and equipment:								
Property and equipment	203,046,000	162,300	20,810,100	—	224,018,400	—	224,018,400	219,196,200
Accumulated depreciation and amortization	(149,013,800)	(89,000)	(15,159,500)	—	(164,262,300)	—	(164,262,300)	(169,793,900)
Total property and equipment	54,032,200	73,300	5,650,600	—	59,756,100	—	59,756,100	49,402,300
Other assets:								
Other receivables – noncurrent	1,749,000	—	—	—	1,749,000	—	1,749,000	1,315,400
Investments in subsidiaries	15,938,000	—	—	—	15,938,000	(15,938,000)	—	—
Investments in unconsolidated affiliates	1,670,900	465,700	—	—	2,136,600	—	2,136,600	3,023,200
Deferred compensation plan	2,357,800	—	—	—	2,357,800	—	2,357,800	2,265,300
Cash value of life insurance	529,300	—	—	—	529,300	—	529,300	502,700
Deferred costs and other	230,200	—	—	—	230,200	—	230,200	230,200
Intangible assets	99,700	—	1,587,300	—	1,687,000	—	1,687,000	1,747,300
Goodwill	318,500	—	—	—	318,500	—	318,500	318,500
Total other assets	22,893,400	465,700	1,587,300	—	24,946,400	(15,938,000)	9,008,400	9,402,600
Total assets	$ 157,801,800	2,308,500	13,395,400	9,656,400	183,162,100	(22,203,900)	160,958,200	156,917,800

(Continued)

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Balance Sheet Information

June 30, 2019 and 2018

Liabilities and Net Assets	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany Eliminations	Consolidated June 30, 2019	Consolidated June 30, 2018
Current liabilities:								
Accounts payable	$ 19,943,200	482,000	104,700	1,126,900	21,656,800	(6,265,900)	15,390,900	14,222,000
Accrued payroll and employee benefits	12,249,100	52,600	—	—	12,301,700	—	12,301,700	11,341,400
Estimated liabilities for Medicare and Medicaid settlements	452,800	—	—	—	452,800	—	452,800	562,300
Long-term debt due within one year	1,047,000	—	—	—	1,047,000	—	1,047,000	1,191,900
Accrued bond interest payable	97,900	—	—	—	97,900	—	97,900	104,000
Total current liabilities	33,790,000	534,600	104,700	1,126,900	35,556,200	(6,265,900)	29,290,300	27,421,600
Long-term liabilities:								
Long-term debt, net of amount due within one year	13,069,000	—	—	—	13,069,000	—	13,069,000	14,092,900
Liability for pension benefits	51,789,600	—	—	—	51,789,600	—	51,789,600	41,420,700
Other long-term liabilities	20,509,200	—	—	—	20,509,200	—	20,509,200	11,892,200
Total long-term liabilities	85,367,800	—	—	—	85,367,800	—	85,367,800	67,405,800
Total liabilities	119,157,800	534,600	104,700	1,126,900	120,924,000	(6,265,900)	114,658,100	94,827,400
Net assets:								
Net assets without donor restrictions	38,644,000	1,773,900	13,290,700	772,000	54,480,600	(15,938,000)	38,542,600	54,733,400
Net assets with donor restrictions	—	—	—	7,757,500	7,757,500	—	7,757,500	7,357,000
Total net assets	38,644,000	1,773,900	13,290,700	8,529,500	62,238,100	(15,938,000)	46,300,100	62,090,400
Total liabilities and net assets	$ 157,801,800	2,308,500	13,395,400	9,656,400	183,162,100	(22,203,900)	160,958,200	156,917,800

See accompanying independent auditors' report.

Schedule

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Operations

Years ended June 30, 2019 and 2018

	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany Eliminations	Consolidated June 30, 2019	Consolidated June 30, 2018
Net patient service revenue:								
Patient service revenue (net of contractual allowances and discounts)	$ 210,687,300	2,445,800	—	—	213,133,100	—	213,133,100	197,033,100
Charity care	(10,018,300)	—	—	—	(10,018,300)	—	(10,018,300)	(8,034,900)
Provision for bad debts	(11,918,400)	(68,500)	—	—	(11,986,900)	—	(11,986,900)	(11,893,900)
Total net patient service revenue	188,750,600	2,377,300	—	—	191,127,900	—	191,127,900	177,104,300
Other revenue	18,356,800	3,300	2,799,400	58,400	21,217,900	(3,395,400)	17,822,500	16,728,900
Total revenue	207,107,400	2,380,600	2,799,400	58,400	212,345,800	(3,395,400)	208,950,400	193,833,200
Operating expenses:								
Salaries and wages	84,654,200	573,600	—	—	85,227,800	—	85,227,800	85,211,100
Employee benefits	21,821,200	214,300	—	—	22,035,500	—	22,035,500	21,824,400
Supplies and other expenses	76,718,000	1,305,800	582,300	600	78,606,700	(2,672,000)	75,934,700	67,247,300
Professional fees	18,533,900	—	—	—	18,533,900	—	18,533,900	11,643,900
Management fees	—	220,800	486,000	—	706,800	(706,800)	—	—
Depreciation and amortization	7,909,400	25,600	241,600	—	8,176,600	—	8,176,600	7,408,600
Interest	733,800	—	—	—	733,800	—	733,800	739,300
Total operating expenses	210,370,500	2,340,100	1,309,900	600	214,021,100	(3,378,800)	210,642,300	194,074,600
Income from operations	(3,263,100)	40,500	1,489,500	57,800	(1,675,300)	(16,600)	(1,691,900)	(241,400)
Other income:								
Realized income on investments whose use is limited by board designation	713,000	—	—	—	713,000	—	713,000	727,700
Gain (loss) on investments in affiliated companies	2,805,800	—	—	(16,600)	2,789,200	(1,693,400)	1,095,800	1,110,200
Gain on disposal of property and equipment	(89,700)	180,600	—	—	90,900	—	90,900	234,700
Loss on extinguishment of debt	—	—	—	—	—	—	—	—
Other nonoperating expenses	—	—	—	—	—	—	—	(35,000)
Total other income	3,429,100	180,600	—	(16,600)	3,593,100	(1,693,400)	1,899,700	2,037,600
Revenue in excess of expenses	166,000	221,100	1,489,500	41,200	1,917,800	(1,710,000)	207,800	1,796,200
Contributions for property and equipment acquisition	29,100	—	—	—	29,100	—	29,100	89,500
Change in net unrealized gain (loss) on other than trading securities	623,300	—	—	(200)	623,100	—	623,100	500,600
Pension-related changes	(17,050,800)	—	—	—	(17,050,800)	—	(17,050,800)	3,091,800
(Decrease) increase in net assets with donor restrictions	$ (16,232,400)	221,100	1,489,500	41,000	(14,480,800)	(1,710,000)	(16,190,800)	5,478,100

See accompanying independent auditors' report.