SAMARITAN HEALTH SERVICES, INC.

Consolidated Financial Statements

December 31, 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
Samaritan Health Services, Inc.:

We have audited the accompanying consolidated financial statements of Samaritan Health Services, Inc. (SHS), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets without donor restrictions, 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 auditor 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 Samaritan Health Services, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

In 2019, SHS adopted new accounting guidance in Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules of balance sheet information, operations, and changes in net assets without donor restrictions information are presented for purposes of additional analysis and are 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 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
March 27, 2020

SAMARITAN HEALTH SERVICES, INC.

Consolidated Balance Sheets

December 31, 2019 and 2018

(Dollars in thousands)

Assets		2019	2018
Current assets:			
Cash and cash equivalents	$	142,077	144,252
Short-term investments		39,267	40,717
Patient accounts receivable, net		80,848	78,743
Other receivables		36,531	30,653
Inventories		16,350	15,004
Other current assets		8,491	11,035
Total current assets		323,564	320,404
Assets limited as to use:			
Restricted by donor for capital acquisition		2,619	2,877
Restricted by donor for permanent endowment		6,405	6,216
Held by trustee		21,956	54,836
Statutory deposits and other restricted investments		9,329	9,023
Total assets limited as to use		40,309	72,952
Long-term investments		121,245	104,996
Property, plant, and equipment, net		364,610	333,733
Operating lease, right of use assets, net		17,858	—
Other assets		19,552	18,328
Total assets	$	887,138	850,413

(Continued)

SAMARITAN HEALTH SERVICES, INC.

Consolidated Balance Sheets

December 31, 2019 and 2018

(Dollars in thousands)

Liabilities and Net Assets		**2019**	**2018**
Current liabilities:			
Accounts payable	$	39,481	49,039
Accrued salaries, wages, and benefits		54,819	56,997
Estimated third-party payor settlements		7,502	6,759
Liability for unpaid medical claims		28,358	30,614
Other current liabilities		25,232	24,219
Current portion of operating lease liabilities		3,218	—
Current portion of long-term debt		10,684	9,332
Total current liabilities		169,294	176,960
Long-term debt, less current portion		221,596	228,764
Long-term operating lease liabilities, less current portion		14,640	—
Professional liability, less current portion		17,816	15,875
Pension liability		24,044	24,947
Other liabilities		19,132	16,374
Total liabilities		466,522	462,920
Net assets:			
Controlling interests		402,326	369,686
Noncontrolling interests		1,071	1,193
Net assets without donor restrictions		403,397	370,879
Net assets with donor restrictions		17,219	16,614
Total net assets		420,616	387,493
Total liabilities and net assets	$	887,138	850,413

See accompanying notes to consolidated financial statements.

SAMARITAN HEALTH SERVICES, INC.

Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions

Years ended December 31, 2019 and 2018

(Dollars in thousands)

		2019	2018
Revenue:			
Net patient service revenue	$	727,379	687,270
Premium revenue		437,627	426,136
Other operating revenue		68,194	54,892
Total revenue		1,233,200	1,168,298
Expenses:			
Salaries and wages		472,320	461,056
Employee benefits		67,539	68,419
Medical services		279,179	258,139
Supplies		167,517	160,779
Purchased services		110,376	94,942
Utilities, insurance, and other		81,157	79,790
Depreciation		33,161	31,852
Interest and amortization		8,013	8,369
Total expenses		1,219,262	1,163,346
Excess of revenue over expenses from operations		13,938	4,952
Other income, net:			
Investment income		15,268	4,080
Other expense		(1,378)	(362)
Total other income, net		13,890	3,718
Excess of revenue over expenses		27,828	8,670
Change in net unrealized gains (losses) on fixed income investments		2,680	(3,223)
Net assets released from restrictions used for capital acquisition		3,284	624
Change in pension liability		(712)	4,107
Distributions to noncontrolling interest in consolidated joint ventures		(1,767)	(1,442)
Other		1,205	372
Change in net assets without donor restrictions	$	32,518	9,108

See accompanying notes to consolidated financial statements.

SAMARITAN HEALTH SERVICES, INC.

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2019 and 2018

(Dollars in thousands)

		Net assets without donor restrictions			
		Controlling interest	Noncontrolling interest	Net assets with donor restrictions	Total net assets
December 31, 2017	$	360,673	1,098	16,113	377,884
Excess of revenue over expenses		7,133	1,537	—	8,670
Change in net unrealized gains and losses on investments		(3,223)	—	661	(2,562)
Net assets released from restrictions		624	—	(2,287)	(1,663)
Change in pension liability		4,107	—	—	4,107
Distributions to noncontrolling interest in consolidated joint ventures		—	(1,442)	—	(1,442)
Contributions		—	—	1,900	1,900
Other		372	—	227	599
Change in net assets		9,013	95	501	9,609
December 31, 2018		369,686	1,193	16,614	387,493
Excess of revenue over expenses		26,183	1,645	—	27,828
Change in net unrealized gains and losses on investments		2,680	—	(313)	2,367
Net assets released from restrictions		3,284	—	(4,179)	(895)
Change in pension liability		(712)	—	—	(712)
Distributions to noncontrolling interest in consolidated joint ventures		—	(1,767)	—	(1,767)
Contributions		—	—	5,176	5,176
Other		1,205	—	(79)	1,126
Change in net assets		32,640	(122)	605	33,123
December 31, 2019	$	402,326	1,071	17,219	420,616

See accompanying notes to consolidated financial statements.

SAMARITAN HEALTH SERVICES, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

(Dollars in thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	33,123	9,609
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		36,012	34,027
Net realized and unrealized (gains) losses on investments		(10,297)	5,397
Loss (gain) on disposal of assets		229	(187)
Equity loss on joint ventures		788	352
Distributions to noncontrolling interest		1,767	1,442
Restricted contributions		(5,365)	(1,900)
Changes in operating assets and liabilities:			
Patient accounts receivable		(2,105)	(2,998)
Other receivables		(5,878)	(9,689)
Inventories		(1,346)	(223)
Other assets		482	(445)
Accounts payable		(10,059)	7,619
Accrued salaries, wages, and benefits		(2,178)	(10,592)
Estimated third-party payor settlements		743	(3,510)
Liability for unpaid medical claims		(2,256)	371
Professional liability		3,074	1,076
Pension liability		(903)	(4,159)
Other liabilities		2,638	(1,117)
Net cash provided by operating activities		38,469	25,073
Cash flows from investing activities:			
Purchase of property, plant, and equipment		(62,360)	(34,736)
Proceeds from sale of property, plant, and equipment		34	163
Investment in joint ventures, net		50	(816)
Purchase of investments		(168,618)	(201,300)
Proceeds from sale of investments		196,759	208,234
Net cash used in investing activities		(34,135)	(28,455)
Cash flows from financing activities:			
Principal payments on long-term debt		(10,107)	(9,545)
Cash received from contributions		5,365	1,900
Distributions to noncontrolling interest in consolidated joint ventures		(1,767)	(1,442)
Net cash used in financing activities		(6,509)	(9,087)
(Decrease) increase in cash and cash equivalents		(2,175)	(12,469)
Cash and cash equivalents, beginning of year		144,252	156,721
Cash and cash equivalents, end of year	$	142,077	144,252
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of amount capitalized	$	8,399	8,788
Noncash transactions:			
Equipment acquired under capital lease arrangements	$	—	408
Finance and operating lease right of use assets acquired		24,201	—
Change in accounts payable related to acquisition of property, plant, and equipment		(501)	2,454

See accompanying notes to consolidated financial statements.

(1) Organization and Basis of Consolidation

Samaritan Health Services, Inc. (SHS) is an Oregon nonprofit corporation formed for the purpose of providing a comprehensive system of healthcare and healthcare-related services to residents of the Willamette Valley, the Oregon coast, and other Oregon communities. The consolidated financial statements include SHS and its direct affiliates, the most significant of which are as follows:

- Good Samaritan Regional Medical Center (GSRMC)
- Mid-Valley Healthcare, Inc. (MVH)
- Samaritan Albany General Hospital (SAGH)
- Samaritan North Lincoln Hospital (SNLH)
- Samaritan Pacific Communities Hospital (SPCH)
- InterCommunity Health Plans (IHP)
- Paradigm Indemnity Corporation (PIC)
- Samaritan Health Plans, Inc. (SHP)
- Samaritan Enterprises, LLC
- Albany General Hospital Foundation
- Good Samaritan Hospital Foundation
- North Lincoln Hospital Foundation
- Lebanon Community Hospital Foundation.

The Obligated Group, which was formed to facilitate borrowing by the health system, includes SHS, GSRMC, MVH, SAGH, and SNLH.

All material interaffiliate accounts and transactions have been eliminated upon consolidation.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets 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. Key estimates include the valuation allowances for patient accounts, fair value of investments, liability for unpaid medical claims, professional liability, and pension liability. Actual results could differ significantly from those estimates.

(b) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid investments with original maturities of three months or less. The balance of cash was $140,926 and $143,357 as of December 31, 2019 and 2018, respectively. Cash equivalents exclude amounts held for donor or trustee restrictions and amounts held within the investment portfolio.

(Continued)

SHS maintains cash and cash equivalents on deposit at financial institutions, which often exceeds the limits insured by the Federal Deposit Insurance Corporation. This exposes SHS to potential risk of loss in the event the financial institution becomes insolvent.

(c) Inventories

Inventories, consisting principally of surgical, pharmacy, and biomedical supplies, and home medical equipment, are carried at the lower of cost or market value.

(d) Investments

Investments are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on equity securities, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or by law. Unrealized gains and losses on debt securities are excluded from excess of revenue over expenses.

A decline in fair value of a debt security below cost that is deemed to be other than temporary is recorded as an impairment loss and is included in excess of revenue over expenses. A new cost basis is then established for the security. To determine whether impairment is other than temporary, SHS considers whether it has the ability and intent to hold the investment until a market price recovery and whether evidence indicating the cost of the investment is recoverable and outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, and the general market conditions in the geographic area or industry in which the investee operates.

(e) Assets Limited as to Use

Assets limited as to use include assets restricted by donors for capital acquisition and permanent endowment funds, assets held by trustees under indenture agreements, statutory deposits for IHP and SHP, and other restricted investments.

(f) Property, Plant, and Equipment

Property, plant, and equipment acquisitions are recorded at cost. Donated property, plant, and equipment items are recorded on the basis of estimated fair value at the date of donation. Maintenance and repairs are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is recorded as operating income or expense.

Depreciation is computed using the straight-line method over estimated useful lives as follows: land improvements, 5 to 20 years; building and improvements, 5 to 70 years; and equipment, 3 to 20 years. Equipment under finance lease obligations or leasehold improvements for operating leases 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 in depreciation in the consolidated statements of operations and changes in net assets without donor restrictions.

(Continued)

Interest cost incurred on borrowed funds during the period of construction of significant capital assets is capitalized as a component of the cost of acquiring those assets. During 2019 and 2018, $2,080 and $1,814 interest cost was capitalized, respectively.

(g) Liability for Unpaid Medical Claims and Medical Services Expense

Medical services expense is recognized in the period in which services are provided. The liability for unpaid medical claims includes an estimate of the cost of services provided that have been incurred but not reported, which is based on actuarial projections of costs using historical paid claims data. Estimates are regularly monitored and reviewed and as settlements are made or estimates adjusted, differences are reflected in current operations. Estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of paid claims is dependent on future developments, management is of the opinion that the liability for claims is adequate to cover such claims.

(h) Professional Liability

The accrual for estimated professional liability claims includes an estimate of the ultimate costs for both reported claims and claims that have been incurred but not reported, which is based on actuarial projections of costs using historical paid claims data. Estimates are regularly monitored and reviewed, and as settlements are made or estimates adjusted, differences are reflected in current operations. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of paid claims is dependent on future developments, management is of the opinion that the liability for claims is adequate to cover such claims.

(i) Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, and equipment and purchased intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or the remaining lives should be adjusted. No impairment has been recognized in 2019 or 2018.

(j) Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use has been limited by donors to a specific time period or purpose or maintained in perpetuity. Income on the related investments is accounted for in accordance with donor instructions.

(k) Excess of Revenue over Expenses from Operations

Excess of revenue over expenses from operations excludes certain items that SHS deems to be outside the scope of its primary business. Investment income includes interest income, dividends, realized gains and losses on investments, and unrealized gains and losses on equity investments. Other income primarily includes net rental income, income from joint ventures and certain expenses associated with the defined benefit pension plan.

(l) Excess of Revenue over Expenses

The performance indicator for SHS is the 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 and generally accepted accounting principles, include unrealized gains and losses on debt investments, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purposes of acquiring such assets), change in pension liability, and distributions to noncontrolling interest in consolidated joint ventures.

(m) Net Patient Service Revenue and Charity Care

SHS has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported net of contractual allowances and discounts at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Contractual adjustments arising under reimbursement arrangements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

SHS provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. SHS provides care to other uninsured or underinsured patients who do not meet the criteria of the charity care policy, which results in payments that are less than established rates. These adjustments represent implicit price concessions.

(n) Premium Revenue

Premium revenue consists of premiums paid to IHP and SHP by individuals and agencies of the federal and state governments for healthcare services as well as commercial businesses on behalf of their employees. Premium revenue is recognized during the month for which the premium is associated.

IHP administers healthcare benefits to certain members of the Oregon Health Plan, placing emphasis on preventative medicine and health education programs for the benefit of the members. During 2012, IHP was selected to provide the infrastructure and delivery system for a community coordinated care organization (CCO). In August 2012, this CCO took over for the previous Medicaid plan managed by IHP. In 2019, the State of Oregon renewed the contract with the CCO to provide care to its members for 5 years beginning January 1, 2020.

SHP premiums include revenue based on predetermined prepaid rates under Medicare contracts and large and small group commercial contracts and are subject to audit and possible retroactive adjustments, which represent variable consideration under the contract. Provision has been made for estimated retroactive adjustments. In 2019 and 2018, SHP premium revenue included $7,474 and $1,550, respectively, relating to favorable settlements of prior years’ reimbursement from Medicare.

(o) Income Taxes

SHS and its affiliates are exempt from taxation under the provisions of the Internal Revenue Code and are generally not subject to federal or state income taxes, except for SHP, which is a taxable Oregon nonprofit corporation, and Samaritan Enterprises, LLC, which is a taxable corporation. Income tax expense (benefits) of $221 and ($1,784) in 2019 and 2018, respectively, has been recorded in utilities, insurance, and other in the consolidated statements of operations and changes in net assets without donor restriction.

In addition, SHS is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business and, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

U.S. generally accepted accounting principles require SHS' management to evaluate tax positions and recognize a tax liability (or an asset) if SHS has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS). Management has analyzed tax positions taken by SHS and has concluded that as of December 31, 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. SHS is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. SHS' management believes it is no longer subject to income tax examinations for years prior to 2016.

(p) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to SHS and its affiliates 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. The gifts are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restriction and reported in the consolidated statements of operations and changes in net assets without donor restriction as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions.

(q) New Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset for all leases longer than 12 months at the commencement date of the lease and disclose key information about leasing arrangements. In July 2018, the FASB issued ASU No. 2018-11, *Leases – Targeted Improvements*, which provides additional transition guidance. SHS adopted the provisions of these ASUs on January 1, 2019. In adopting and applying these ASUs, SHS elected to adopt several practical expedients, including not reassessing past lease accounting and not separating lease components from nonlease components. In general, the lease term is clearly stated in the lease agreement, but when the agreement includes renewal options, management judgmentally determines the term of the lease. Since most of SHS's leases do not provide a rate of return, SHS uses its incremental borrowing rate based on information available at the commencement date in determining the present value of lease payments.

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 consolidated statement of operations. Furthermore, entities should present the other components elsewhere in the consolidated statement of operations and outside of operating income if such a subtotal is presented. SHS adopted the new standard on January 1, 2019, and applied the provisions of the standard retrospectively. The 2018 statement of operations includes a reclassification of $762 of net periodic benefit cost from employee benefits expense to other income due to the retrospective adoption.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows-Restricted Cash*. This ASU requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. SHS adopted the new standard on a retrospective basis on January 1, 2019 and determined there were no material changes to the statement of cash flows.

(3) Net Patient Service Revenue

SHS has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

(a) Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries at GSRMC and SAGH are paid based on prospectively determined rates. These rates vary according to a patient classification system that is based on the resources used to treat Medicare patients in those classifications. Disproportionate share hospital and graduate medical education adjustments are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

Three of SHS’ facilities (MVH, SPCH, and SNLH) are critical access hospitals (CAHs). CAHs are exempt from both inpatient and outpatient prospective payment systems. Inpatient and outpatient services rendered to Medicare program beneficiaries at CAHs are reimbursed based on costs. CAHs are reimbursed based on tentative rates, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Under Medicare, CAH cost reimbursement is subject to the lower of costs or charges.

(b) Medicaid

Services rendered to Medicaid program beneficiaries at GSRMC and SAGH are paid at prospectively determined rates. The hospitals are reimbursed at a tentative rate for inpatient outlier cases, with final settlement determined after submission of annual cost reports and audits thereof by the state’s Medicaid agency.

Inpatient and outpatient services rendered to Medicaid program beneficiaries at CAHs are reimbursed based on costs. CAHs are reimbursed based on tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the state's Medicaid agency. Under Medicaid, CAH cost reimbursement is subject to the lower of costs or charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 42% and 10%, respectively, of SHS' net patient service revenue in 2019, and 42% and 9%, respectively, of SHS' net patient service revenue in 2018. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Management records estimates in the amount of related revenues that are probable of not subsequently being reversed. In 2019 and 2018, net patient service revenue includes $4,497 and $8,493, respectively, relating to favorable settlements of prior years' reimbursement from the Medicare and Medicaid programs.

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

Accounts receivable are reduced for explicit and implicit price concessions. In evaluating the contract price of accounts receivable, SHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate contract price. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the reductions to the contract price.

For receivables associated with self-pay patients (which include patients without insurance), SHS records an implicit price concession, in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

For third-party receivables associated with services provided to patients who have third-party coverage, SHS analyzes contractually due amounts after explicit price concessions and provides an implicit price concession which primarily relates to self-pay patient balances that will remain after payments from the third-party payor have been collected.

Management evaluates revenue by nature in the following categories:

		2019	2018
Net patient service revenue by payor:			
Medicare	$	302,442	291,079
Medicaid		69,290	60,755
Self-Pay		2,116	1,494
Other third-party payors, primarily commercial		353,531	333,942
	$	727,379	687,270

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		2019	2018
Total revenue:			
Inpatient revenue, net	$	221,563	216,817
Outpatient revenue, net		505,816	470,453
Premium revenue		437,627	426,136
Retail pharmacy revenue		50,972	32,228
Other operating revenue		17,222	22,664
	$	1,233,200	1,168,298

SHS has contracted to sell certain patient accounts receivable accounts to a third party. The contracts include a right for the third party to recourse the receivables to SHS in the event of patient default. SHS has estimated a reserve for such recourse of $4,210 and $4,151, respectively, at December 31, 2019 and 2018 as part of patient accounts receivable, net in the consolidated balance sheets.

(4) Samaritan North Lincoln Affiliation Agreement

On January 1, 2001, SHS entered into a long-term lease of a hospital facility and certain equipment with North Lincoln Health District (NLH-District) whereby SHS operates the hospital as SNLH. SHS has agreed to lease SNLH from NLH-District for a period of 30 years, with a termination date of December 31, 2030. Both parties have the right to terminate the lease without cause with five years' written notice at any time after December 31, 2005. Both parties have the right to terminate the lease for cause with one year's written notice.

In February of 2016, NLH-District transferred real property, equipment, and assets including control of the NLH-District Foundation to SHS under a Memorandum of Understanding signed in September of 2015. This transfer was subject to commencement of construction of a new CAH to replace the existing North Lincoln Hospital. In addition, the existing lease terminated as part of the agreement and a portion of the tax revenue from the NLH-District will continue to be paid to SHS. The new hospital has been constructed and was opened in February 2020.

Additionally, SNLH has recorded $1,121 and $1,126 as other operating revenue related to these property tax operating levy amounts provided by NLH-District during 2019 and 2018, respectively. SNLH has recorded $1,160 and $1,189 related to this operating tax levy in other receivables in the consolidated balance sheets as of December 31, 2019 and 2018, respectively.

(5) Samaritan Pacific Communities Affiliation Agreement

On January 1, 2002, SHS entered into a long-term management agreement with Pacific Communities Health District (PCH-District) whereby SHS operates the hospital as Samaritan Pacific Communities Hospital. SHS has agreed to operate SPCH for a period of 30 years, with a termination date of December 31, 2031. Both parties have the right to terminate the agreement without cause with five years' written notice at any time after December 31, 2006. Both parties have the right to terminate the lease for cause with one year's written notice.

Effective January 1, 2002, PCH-District made a net working capital transfer to SHS of certain current assets and current liabilities related to the operation of SPCH. Upon termination of the agreement, SHS is required to remit the balance of the adjusted net working capital account back to PCH-District and sell to PCH-District all fixed assets acquired after commencement of the agreement at half of net book value. Neither party has elected to terminate the contract as of December 31, 2019. The net working capital transfer balance of $4,732 and $4,750 is included in other liabilities in the consolidated balance sheets as of December 31, 2019 and 2018, respectively.

As provided by the agreement, PCH-District is required to make payments to SHS for 70% of PCH-District's maximum annual authorized property tax operating levy. SPCH has recorded $981 and $941 as other operating revenue related to the property tax operating levy amount provided by PCH District during 2019 and 2018, respectively. Receivables of $323 and $268 related to this operating tax levy are included in other receivables in the consolidated balance sheets as of December 31, 2019 and 2018, respectively.

(6) Charity Care and Other Community Benefit Services

As part of its charitable mission to enhance and improve health in the community, SHS provides healthcare services to people in need, including charity care for those patients needing financial assistance and services to patients covered by Medicare, Medicaid, and other public programs where the costs of care exceed reimbursement from these programs. In addition, SHS sponsors other activities that benefit the community.

The following represents the estimated cost of providing these services and activities, along with descriptions of selected activities during 2019 and 2018:

	2019		
	Community benefit costs	Offsetting revenue	Net community benefit costs
Charity care and public programs:			
Charity care	$ 14,199	—	14,199
Medicaid	158,345	127,435	30,910
Medicare	420,219	344,172	76,047
Other public programs	23,169	18,072	5,097
	$ 615,932	489,679	126,253

	2018		
	Community benefit costs	Offsetting revenue	Net community benefit costs
Charity care and public programs:			
Charity care	$ 14,318	—	14,318
Medicaid	181,835	143,020	38,815
Medicare	374,743	298,695	76,048
Other public programs	11,986	7,540	4,446
	$ 582,882	449,255	133,627

(a) Charity Care and Public Programs

Consistent with its charitable mission, SHS provides medically necessary patient care services that are discounted or free of charge to uninsured or underinsured persons who qualify for assistance due to insufficient resources. The criteria for charity care assistance is determined based on eligibility for insurance coverage, household income, catastrophic medical events, eligibility for other means-tested government programs, and/or other information supporting a patient's inability to pay for services provided. In addition to a 10% discount for all uninsured patients, SHS makes full subsidies available for uninsured and underinsured patients whose household income is at or below 225% of the federal poverty level (FPL); uninsured patients above 225% of the FPL but below 300% are eligible for a discount of 50%.

In addition to charity care, SHS provides services under various public programs for financially needy patients. The cost of providing services to Medicaid beneficiaries, including patients covered by Oregon's and other states' Medicaid programs, generally exceeds the reimbursement from these programs. SHS serves a significant population of Medicare beneficiaries, including those covered under traditional Medicare as well as Medicare managed care programs. The cost of treating these Medicare patients at certain of SHS' hospitals exceeds government payments received. Other public programs include Tricare, Veteran's Administration, and other government-sponsored programs. The cost of healthcare services for patients covered under these programs generally exceeds reimbursement.

The estimated cost of services provided under these programs is determined based on the relationship of total operating costs to gross charges, called the cost-to-charge ratio. Total operating costs for purposes of this ratio exclude costs associated with community benefit activities, such as community health services, medical education, and cash or in-kind contributions to other charitable organizations, as described below. Total cost is then offset with any related reimbursements to arrive at net community benefit cost.

(b) Other Benefits to the Community

Community health improvement services include community health education and clinics, such as classes and workshops on health topics for little or no charge, health screenings, support groups, resource centers, and medical libraries.

(Continued)

Health professions education includes programs to train medical students, nurses, and other health professionals, including students in imaging, pharmacy, physical rehabilitation, laboratory, and other areas.

Subsidized health services are clinical programs provided despite a financial loss because the service is needed in the community. Examples include emergency and trauma care, hospice and home healthcare, women's and children's services, behavioral health services, and outpatient clinic services.

Cash and in-kind contributions to charitable organizations include grants to community organizations that are selected by SHS through an application process through each hospital's social accountability committee. Applications from community organizations are evaluated based on meeting identified community health needs. Organizations that receive funding are required to report on their use of the funds. Cash contributions also include funds donated to community organizations that provide health-related services in the hospital service areas. In-kind contributions include providing free medications to individuals in need who are identified through community outreach programs and regular free health clinics.

Other community benefit activities include research, community building activities, and community benefit operations. Research includes health-related studies or trials whose results benefit the public. Community building activities include community support, coalition building, and workforce development activities. Community benefit operations include SHS staff whose function is to coordinate and lead efforts to promote and track the organization's community benefit activities.

(7) Investments

Assets limited as to use that are held by trustee include funds received from bond issuances. This includes amounts held for future interest and principal payments and a debt reserve fund. Debt reserve funds represents amounts required to be held under the master trust agreement for future bond payments on the 2010 bonds described in footnote 11.

IHP, as required by the Oregon Health Plan, has deposits with the State of Oregon of $8,979 and $8,673 as of December 31, 2019 and 2018, respectively. SHP is required to keep investments on deposit in the states where it is licensed and has deposits of $275 as of December 31, 2019 and 2018. Additionally, restricted reserves include miscellaneous SHS deposits of $75 in 2019 and 2018.

There were no significant gross unrealized losses at December 31, 2019 or 2018.

(8) Fair Value of Financial Instruments

FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that SHS has the ability to access.

Level 2 – Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

Cash equivalents: Valued at fair value based on face value or cost plus accrued interest, which approximates fair value because of the short maturity of these investments

Certificates of deposit: Valued at redemption value

Mutual funds: Valued at the net asset value (NAV) of shares held at year-end, based on published market quotations on active markets

Private international equity fund: Valued at NAV of shares held at year-end as a readily determinable fair value, based on published transaction prices by the issuer

Fixed income: Valued at fair value based on quoted market prices in active or inactive markets.

The methods 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 SHS 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. There were no changes in the hierarchy classification below from 2018 to 2019.

The following table presents the balances of financial assets and liabilities measured or disclosed at fair value on a recurring basis at December 31, 2019:

		Fair value	Level 1	Level 2	Level 3
Assets:					
Cash equivalents	$	15,263	15,263	—	—
Certificates of deposit		4,895	—	4,895	—
Mutual funds:					
Domestic equities		36,330	36,330	—	—
International equities		16,876	16,876	—	—
Domestic debt securities		21,103	21,103	—	—
International debt securities		1,068	1,068	—	—
Fixed income:					
U.S. government obligations		22,023	22,023	—	—
Domestic corporate obligations		78,489	—	78,489	—
Municipals		4,774	—	4,774	—
Total assets	$	200,821	112,663	88,158	—

The following table presents the balances of financial assets and liabilities measured or disclosed at fair value on a recurring basis at December 31, 2018:

		Fair value	Level 1	Level 2	Level 3
Assets:					
Cash equivalents	$	14,890	14,890	—	—
Certificates of deposit		728	—	728	—
Mutual funds:					
Domestic equities		21,541	21,541	—	—
International equities		14,709	14,709	—	—
Domestic debt securities		24,589	24,589	—	—
International debt securities		1,218	1,218	—	—
Fixed income:					
U.S. government obligations		53,730	53,730	—	—
Domestic corporate obligations		82,471	—	82,471	—
Municipals		4,789	—	4,789	—
Total assets	$	218,665	130,677	87,988	—

(9) Property, Plant, and Equipment

Property, plant, and equipment comprise the following at December 31:

		2019	2018
Land and land improvements	$	48,546	47,526
Buildings and leasehold improvements		392,521	384,104
Furniture and equipment		234,640	219,272
Construction in progress		58,908	23,707
		734,615	674,609
Less:			
Accumulated depreciation		370,005	340,876
	$	364,610	333,733

There were capital expenditure purchase commitments outstanding as of December 31, 2019 for various construction and equipment projects. The estimated cost to complete such projects at December 31, 2019 was $14,579, of which $9,728 was contractually committed.

(10) Line of Credit

SHS may borrow up to $16,000 under its line of credit agreement. No amounts were drawn during 2019 or 2018.

(11) Long-Term Debt

Long-term debt comprises the following at December 31:

		2019	2018
Oregon Facilities Authority Revenue Bonds, Series 2016, 5.00%, principal maturing in varying annual amounts, due October 2046, secured by an interest in gross revenue	$	78,265	78,265
Oregon Facilities Authority Revenue Bonds, Series 2014, 2.81%, principal maturing in varying annual amounts, due December 2039, secured by an interest in gross revenue		16,186	16,781
Oregon Facilities Authority Revenue Refunding Bonds, Series 2010, 4.00% to 5.25%, principal maturing in varying annual amounts, due October 2040, secured by an interest in gross revenue		88,210	90,754

		2019	2018
Oregon Facilities Authority, SNAP Revenue Bond, Series A, 3.80% resetting every seven years, principal maturing in varying monthly amounts, due September 2034, unsecured		9,575	10,052
Loan payable, 4.31%, interest payable monthly, due March 2032, secured by real estate		2,134	2,263
Loan payable, 5.97%, payable in monthly installments of $42, due September 2020, secured by real estate		372	842
Loan payable, 5.01%, payable in monthly installments of $12, due with balloon payment of $1,514 in 2023, secured by real estate		1,739	1,792
Obligations under finance leases and other, secured by related equipment		26,620	28,382
Other debt		1,735	1,072
Deferred financing fees		(1,927)	(2,085)
Unamortized premium on bonds, net		9,371	9,978
		232,280	238,096
Less current portion		10,684	9,332
	$	221,596	228,764

The Obligated Group is required to satisfy certain measures of financial performance as long as the bonds are outstanding under the Master Trust Indenture. At December 31, 2019 and 2018, management believes that the Obligated Group was in compliance with the terms of its debt agreements.

The Oregon Facilities Authority Revenue Bonds, Series 2016 (2016 Bonds) were issued in November 2016 in the amount of $78,265 and generated a premium of $11,268. Interest is paid semiannually, and principal is paid annually beginning October 2017 and carries an interest rate of 5.00%. The 2016 Bonds maturing in the years 2030, 2035, and 2040 are subject to mandatory redemption and sinking fund requirements beginning October 1, 2026. The proceeds from the 2016 Bonds were used to refund the remainder of the Hospital Facilities Authority of Benton County, Oregon Revenue and Refunding Bonds, Series 1998 (1998 Bonds) and the callable portion of The Oregon Facilities Authority Revenue Refunding Bonds, Series 2010 (2010 Bonds), finance certain capital construction projects, including a replacement CAH in Lincoln City, remodel the MVH emergency room and operating room, private room conversions at GSRMC and AGH, Sexual Assault Nurse Examiners Center, and to pay expenses incurred with the issuance.

The Oregon Facilities Authority Revenue Bonds, Series 2014 (2014 Bonds) were issued in December 2014 in the amount of $19,000. Interest and principal payments on the 2014 Bonds are made monthly to the lender. Interest and principal is paid monthly beginning January 2015 and carries an average interest rate of 2.81%. The 2014 Bonds are paid monthly and mature in 2021. The proceeds from the 2014 Bonds were used to finance certain capital construction projects at GSRMC and to pay expenses incurred with the issuance.

The 2010 Bonds were issued in March 2010 in the amount of $122,055. Interest payments on the 2010 Bonds are made monthly to an account held by the trustee. Interest is paid semiannually and principal is paid annually beginning October 2014 and carry interest rates ranging from 4.00% to 5.25%. The 2010 Bonds maturing in the years 2030, 2035, and 2040 are subject to mandatory redemption and sinking fund requirements beginning October 1, 2026. The proceeds from the 2010 Bonds were used to refund a portion of the 1998 Bonds; refinance other long-term and short-term debt obligations; finance certain capital construction projects, primarily an ambulatory surgery building on the GSRMC campus; and to pay expenses incurred with the issuance.

The Oregon Facilities Authority SNAP Revenue Bond, Series A bonds (Samaritan Health Services Project) (2009 Bonds) were issued in September 2009 in the amount of $15,800. Payments on the 2009 Bonds are made monthly and carry an initial interest rate of 4.4%. In 2017, SHS and the lender agreed to an interest rate of 3.80% per annum for seven years and to adjust the reset period going forward to seven years. The proceeds from the 2009 Bonds were restricted for capital expenditures, primarily the construction of a facility that is owned by SHS and leased to Western Health Sciences University, and to pay expenses incurred with the issuance.

Included in debt is $20,652 and $25,183 at December 31, 2019 and 2018, respectively, related to a finance lease and debt agreement with Key Government Finance, Inc. for information systems to transform healthcare. The debt is a maximum $45,045 master lease facility with 51.70% secured under the Master Trust Indenture and 48.3% secured as purchase-money security interest of leased assets under finance lease obligations. Each draw is individually payable over a 10-year period. The interest rate on each draw is 3.24% plus the change in the KeyCorp Cost of Funds Index for 72 months (ranging from 3.35% to 4.97% on the draws outstanding at December 31, 2019).

Scheduled principal repayments on long-term debt and payments on finance lease obligations are as follows:

	Long-term debt	Finance lease obligations
2020	$ 6,936	3,751
2021	7,184	3,632
2022	7,488	3,511
2023	8,415	2,667
2024	7,046	1,263
Thereafter	171,823	3,403
	$ 208,892	18,227
Less amount representing interest under finance lease obligations		(2,283)
		$ 15,944

(12) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31:

		2019	2018
Operating programs support	$	6,893	6,382
Capital acquisition		2,619	2,877
Donor restricted endowment		6,405	6,216
Other		1,302	1,139
Total donor restricted net assets	$	17,219	16,614

The foundations' endowments consist of 20 individual funds established for a variety of purposes. The endowments include both donor-restricted endowment funds and unrestricted funds designated by the boards of trustees of each of the foundations to function as endowments. Net assets associated with endowment funds, including funds designated by the boards of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The foundations have adopted investment and spending policies for endowment assets to ensure appropriations for distributions are consistent with the foundations' objective of maintaining the corpus. These funds included $6,405 and $6,216 of net assets with donor restrictions as of December 31, 2019 and 2018, respectively.

The foundations also have board designated endowments of $6,613 and $6,603 at December 31, 2019 and 2018, respectively. These funds are managed based on policies adopted by the boards to benefit the mission of SHS. They are classified as net assets without donor restrictions.

(13) Retirement Plans

(a) Retirement Plan

Employees aged 18 or older and having completed one year of service (12 months with at least 1,000 hours) are eligible to participate in the Samaritan Health Services Retirement Plan (SHS Retirement Plan), a defined-contribution pension plan. Employer contributions are 4% of gross earnings, with an additional 4% of earnings in excess of the FICA wage base.

Employer contributions under this plan were $16,414 and $17,049 in 2019 and 2018, respectively, and are included in employee benefits in the consolidated statements of operations and changes in net assets without donor restrictions.

(b) Tax Sheltered Annuity Plan

Employees aged 18 or older and having completed one year of service (12 months with at least 1,000 hours) are eligible to participate in the Samaritan Health Services Tax Sheltered Annuity Plan (SHS TSA Plan). The level of contribution depends on the level of employee contributions to individual tax-sheltered annuity accounts and the employer matches up to 2% of the employees' gross earnings.

Employer contributions under this plan were $7,835 and $7,178 in 2019 and 2018, respectively, and are included in employee benefits in the consolidated statements of operations and changes in net assets without donor restrictions.

(Continued)

(c) Defined-Benefit Plan

GSRMC has a noncontributory defined-benefit pension plan (the Plan). The retirement benefits of all participants in the Plan were frozen effective December 31, 2011 (Freeze Date). No benefit service after the Freeze Date will be taken into account in determining a participant's retirement benefits. After the Freeze Date, future retirement benefits are provided by the SHS Retirement Plan and the SHS TSA Plan. GSRMC's policy has been to contribute for each plan year an amount between the minimum and maximum contribution allowed under IRS regulations.

SHS recognizes the funded status of the defined-benefit pension as a net asset or liability on its consolidated balance sheets. Actuarial gains and losses are generally amortized subject to the corridor, over the average remaining service life of the employees.

The following tables set forth the Plan's funded status at December 31, 2019 and 2018:

		2019	2018
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	118,694	128,886
Interest cost		4,677	4,272
Actuarial loss (gain)		14,920	(9,860)
Benefits paid		(5,052)	(4,604)
Projected benefit obligation at end of year		133,239	118,694
Change in fair value of plan assets:			
Fair value of plan assets at beginning of year		93,747	99,780
Actual return on plan assets		19,158	(4,398)
Employer contributions		1,375	3,000
Administrative expenses		(33)	(31)
Benefits paid		(5,052)	(4,604)
Fair value of plan assets at end of year		109,195	93,747
Funded status	$	(24,044)	(24,947)

		2019	2018
Amounts recognized as changes in net assets consist of:			
Amortization of net loss	$	(3,006)	(2,947)
Actuarial gain (loss)		2,294	(1,160)
Net amount recognized	$	(712)	(4,107)
Accumulated benefit obligation at end of year	$	133,239	118,694

The following table sets forth the components of net periodic benefit cost in 2019 and 2018, which is included in other nonoperating expense in the consolidated statements of operations and changes in net assets without donor restrictions:

		2019	2018
Interest cost	$	4,677	4,272
Expected return on plan assets		(6,499)	(7,021)
Amortization of actuarial loss		3,006	2,947
Net periodic benefit cost	$	1,184	198

The estimated net actuarial loss that will be amortized from net assets into net periodic pension cost during 2019 is $3,006.

Assumptions used to determine benefit obligations at December 31 were as follows:

	2019	2018
Benefit obligation:		
Discount rate	2.96 %	4.00 %
Net periodic benefit cost:		
Discount rate	4.00	3.39
Expected long-term rate of return on plan assets	7.10	7.10

The expected long-term rate of return on plan assets is the expected weighted average rate of return on the funds invested currently and on funds to be invested in the future in order to provide for the benefits included in the projected benefit obligation. The assumptions are based on capital market assumptions and the Plan's target asset allocation. SHS monitors the expected long-term rate of return to determine if changes in those parameters cause the estimate to be outside of a reasonable range of expected returns, or if actual Plan returns over an extended period of time suggest that general market assumptions are not representative of expected Plan results.

The Plan's asset allocation at December 31 was as follows:

	2019		2018	
	Actual	**Target**	**Actual**	**Target**
Cash	1 %	— %	— %	— %
Fixed equities	25	23	37	42
Domestic debt securities	52	55	55	50
International equities	15	14	—	—
Real estate properties	7	8	8	8
Total	100 %	100 %	100 %	100 %

(Continued)

Pension plan assets are managed according to an investment policy adopted by the Samaritan Health Services, Inc. Retirement Plan Trustees. The board of directors establishes overall investment objectives and delegates the authority for executing the policy to the Retirement Plan Trustees. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objective 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 for the long term, which protects the principal and produces returns sufficient to meet future benefit obligations. The investment policy provides for an asset allocation that includes equities, fixed income instruments, and real estate.

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. These levels and associated valuation methodologies are described in note 8. There were no changes in the hierarchy classification below from 2018 to 2019. The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2019:

	Fair value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 475	475	—	—
Mutual funds:				
Domestic equities	27,531	27,531	—	—
International equities	16,286	16,286	—	—
Domestic debt securities	57,258	57,258	—	—
	101,550	$ 101,550	—	—
Investments measured at NAV per share or its equivalent	7,645			
	$ 109,195			

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2018:

	Fair value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 435	435	—	—
Mutual funds:				
Domestic equities	21,376	21,376	—	—
International equities	13,398	13,398	—	—
Domestic debt securities	51,202	51,202	—	—
	86,411	$ 86,411	—	—
Investments measured NAV per share or its equivalent	7,336			
	$ 93,747			

The following table provides information regarding redemption of investments where the NAV has been used as a practical expedient to fair value at December 31, 2019 and 2018:

	Fair value at December 31, 2019	Fair value at December 31, 2018	Redemption frequency	Redemption period
Real estate investment fund	$ 7,645	7,336	Quarterly	90 days

The ING Clarion Lion Properties Fund is a real estate fund that has a fair value of $7,645 and $7,336 as of December 31, 2019 and 2018, respectively, estimated by using NAV as a practical expedient to fair value, and consists of assorted real estate investments around the United States. These underlying properties are valued using a combination of the income, cost, and sales approaches using projected income streams, discount rates, replacement costs, and recent transactions for similar properties depending on the valuation approach utilized. Other factors considered include the operating cash flows and financial performance of the properties, property types and geographic locations, the physical condition of properties, prevailing market capitalization and discount rates, and general and specific economic conditions. The valuation of investments includes reliance on significant unobservable inputs.

SHS expects to contribute $1,118 to the Plan in 2020.

Benefit payments are expected to be paid as follows:

2020	$	6,666
2021		7,071
2022		7,246
2023		7,514
2024		7,609
2025–2028		38,366
	$	74,472

(14) Commitments and Contingencies

(a) Professional Liability and Other Claims

SHS is self-insured for professional and general liability coverage through PIC, a captive insurance company wholly owned by SHS. Insurance coverage in excess of self-insured levels is carried through outside excess commercial reinsurers 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. SHS has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. The amount recorded as a liability for estimated losses from professional liability incidents, claims, and other was $25,084 and $22,006 as of December 31, 2019 and 2018, respectively, and, in management's opinion, provides an adequate reserve for loss contingencies.

(b) Collective Bargaining Agreements

Approximately 33% of SHS employees are covered under collective bargaining agreements, including nurses, professional employees, and service employees, with 9% of SHS employees under contracts expiring in 2020. SHS is currently engaged in contract negotiations on the contracts that are soon to expire.

(c) Litigation

SHS is involved in litigation and regulatory matters arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on SHS' future financial position or results from operations.

The healthcare industry is governed by various laws and regulations of federal, state, and local governments. These laws and regulations are subject to ongoing government review and interpretation and include matters, such as licensure, accreditation, reimbursement for patient services, and referrals for Medicare and Medicaid beneficiaries. Compliance with these laws and regulations is required for participation in government healthcare programs. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by healthcare providers. These investigations may result in settlements involving fines and penalties as well as repayment of improper reimbursement. SHS has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of instances of noncompliance.

(15) Leases

Relevant leasing information for the year ended December 31, 2019, as determined under ASC 842, is as follows:

SHS leases medical and administrative office buildings, and equipment to support operations. Below is the breakout of operating and finance leases as of December 31, 2019:

		2019 Operating leases
Operating lease, right of use assets	$	20,899
Less accum amort/depr		(3,041)
Operating lease, right of use assets, net	$	17,858
Current liabilities	$	3,218
Other liabilities		14,640

	2019 Finance leases
Finance Lease Right of Use Assets recorded in Property, Plant, and equipment, net	8,221
Finance Lease Liabilities recorded in current portion of long-term debt	3,141
Finance lease liabilities recorded in long-term debt, less current portion	12,804

The weighted average terms and discount rates for operating and finance leases were 7.4 and 7 years and 4% and 3.82%, respectively, as of December 31, 2019.

SHS incurred the following lease expense amounts:

		December 31, 2019
Operating lease cost:		
Operating lease cost	$	3,790
Finance lease cost:		
Interest expense		1,578
Amortization expense		3,361

(Continued)

SHS anticipates that operating leases will mature as follows:

		Operating leases
2020	$	3,874
2021		3,316
2022		3,009
2023		2,661
2024		1,949
Thereafter		5,666
	$	20,475

Relevant leasing information for the year ended December 31, 2018, as determined under ASC 840, is as follows:

Operating Lease Commitments

SHS leases various equipment and facilities under operating leases expiring at various dates through December 2049. Total rental expense in 2018 for all operating leases was $6,197.

2019	$	4,192
2020		3,708
2021		2,558
2022		1,836
2023		1,116
Thereafter		1,681
	$	15,091

(16) Related-Party Disclosures

SHS has invested in certain joint ventures. The following joint ventures are consolidated into the financial statements of SHS and in the aggregate have total assets of $2,704 and $3,121 as of December 31, 2019 and 2018, respectively, and earnings of $3,847 and $3,679 in 2019 and 2018, respectively.

	Ownership
Corvallis Medical Office Building, LLC	54.5 %
Corvallis MRI Joint Venture	50.0
East Linn MRI, LLC	60.0
Hull Imaging, LLC	60.0
Samaritan Endoscopy Center, LLC	66.7

The following joint ventures are accounted for on the equity method and have in the aggregate contributed losses of $558 and $483 in 2019 and 2018, respectively, which are included in other income (expense) in the consolidated statements of operations and changes in net assets without donor restrictions.

	Ownership		Rent paid by SHS 2019
Lodges at Lebanon, LLC	$ 1,045	19.9 %	$ n/a
Mid Valley Buildings, LLC	198	20.0	398
Northwest Medical Isotopes, LLC	1,567	32.6	n/a
Cascade View Medical Office Building, LLC	423	26.3	485
Mid-Valley Medical Property Associates, LLC	492	36.8	174
Larken Enterprises	18	20.0	n/a
Beaver Sports Medicine	146	20.0	n/a

	Ownership		Rent paid by SHS 2018
Lodges at Lebanon, LLC	$ 1,068	19.9 %	$ n/a
Mid Valley Buildings, LLC	251	20.0	423
Northwest Medical Isotopes, LLC	2,394	42.6	n/a
Cascade View Medical Office Building, LLC	384	26.3	484
Mid-Valley Medical Property Associates, LLC	508	36.8	186
Larken Enterprises	18	20.0	n/a
Beaver Sports Medicine	160	20.0	n/a

(17) Functional Expenses

SHS provides healthcare services to residents within its geographic locations. Functional expenses are based on the department they are associated with. Administrative departments are assigned to the management and general category, foundation and auxiliary departments are assigned to the fundraising category, and departments associated with the exempt purposes of the affiliated organizations of Samaritan Health Services are assigned to the program service category. Employee benefits are allocated based on wages. Depreciation, amortization, and interest expense are allocated based on square footage. Expenses related to providing these services are as follows:

	2019			
	Fundraising	Management	Program service	Total
Salaries and wages	$ 1,103	17,185	454,032	472,320
Employee benefits	159	2,457	64,923	67,539
Medical services	—	—	279,179	279,179
Supplies	472	2,021	165,024	167,517
Purchased services	2,328	7,161	100,887	110,376
Utilities, insurance, and other	58	11,575	69,524	81,157
Depreciation	10	1,733	31,418	33,161
Interest and amortization	—	1,329	6,684	8,013
Total	$ 4,130	43,461	1,171,671	1,219,262

	2018			
	Fundraising	Management	Program service	Total
Salaries and wages	$ 1,064	15,886	444,106	461,056
Employee benefits	158	2,357	65,904	68,419
Medical services	—	—	258,139	258,139
Supplies	434	2,440	157,905	160,779
Purchased services	3,156	6,354	85,432	94,942
Utilities, insurance, and other	60	12,138	67,592	79,790
Depreciation	10	1,601	30,241	31,852
Interest and amortization	—	1,511	6,858	8,369
Total	$ 4,882	42,287	1,116,177	1,163,346

(18) Liquidity

As of December 31, 2019 and 2018, SHS has a working capital excess of $154,270 and $143,444 and average days (based on normal expenditures) cash on hand of 94 and 93 respectively.

The table below represents financial assets available for general expenditures within one year:

		2019	2018
Financial assets at year end:			
Cash and cash equivalents	$	142,077	144,252
Patient accounts receivable, net		80,848	78,743
Investments, including short term		160,512	145,713
Total financial assets	$	383,437	368,708

SHS 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 12, are not available for general expenditure within the next year and are not reflected in the amounts above.

Additionally, SHS maintains a $16 million line of credit, as discussed in more detail in note 10. As of December 31, 2019, $16 million remained available on the SHS's line of credit.

(19) Subsequent Events

SHS evaluated subsequent events after the consolidated balance sheet date of December 31, 2019 through March 27, 2020, which was the date the consolidated financial statements were issued.

In December 2019, a strain of coronavirus (2019-nCoV) was identified in Wuhan, China, and has spread to other geographic locations. The World Health Organization has described the coronavirus outbreak as a "public health emergency of international concern." SHS's patient service volumes, access to labor, and supply chains are likely to be impacted by such a pandemic. Such events may be outside of SHS's control and impact its business, although such impact is not yet measurable. Additionally, subsequent to December 31, 2019, there has been instability in the financial markets. Management anticipates that SHS may experience declines in market values.

Schedule I

SAMARITAN HEALTH SERVICES, INC.

Supplementary Schedule – Balance Sheet Information

December 31, 2019 and 2018

(Dollars in thousands)

Assets	Obligated group	Nonobligated group	Eliminating entries	2019	2018
Current assets:					
Cash and cash equivalents	$ 89,358	52,719	—	142,077	144,252
Short-term investments	—	39,267	—	39,267	40,717
Patient accounts receivable	80,287	8,055	(7,494)	80,848	78,743
Other receivables	19,156	17,434	(59)	36,531	30,653
Receivable from affiliates	2,677	(2,677)	—	—	—
Inventories	13,908	2,442	—	16,350	15,004
Other current assets	7,410	1,081	—	8,491	11,035
Total current assets	212,796	118,321	(7,553)	323,564	320,404
Assets limited as to use:					
Restricted by donor for capital acquisition	—	2,619	—	2,619	2,877
Restricted by donor for permanent endowment	—	6,405	—	6,405	6,216
Held by trustee	21,956	—	—	21,956	54,836
Statutory deposits	75	9,254	—	9,329	9,023
Total assets limited as to use	22,031	18,278	—	40,309	72,952
Long-term investments	43,083	78,162	—	121,245	104,996
Property, plant, and equipment, net	336,291	28,319	—	364,610	333,733
Operating lease, right of use, net	15,119	2,739	—	17,858	—
Other assets	34,918	6,362	(21,728)	19,552	18,328
Total assets	$ 664,238	252,181	(29,281)	887,138	850,413

(Continued)

Schedule I

SAMARITAN HEALTH SERVICES, INC.

Supplementary Schedule – Balance Sheet Information

December 31, 2019 and 2018

(Dollars in thousands)

Liabilities and Net Assets		Obligated group	Nonobligated group	Eliminating entries	2019	2018
Current liabilities:						
Accounts payable	$	34,500	5,040	(59)	39,481	49,039
Accrued salaries, wages, and benefits		51,656	3,163	—	54,819	56,997
Estimated third-party payor settlements		6,524	978	—	7,502	6,759
Liability for unpaid medical claims		4,704	31,148	(7,494)	28,358	30,614
Other current liabilities		7,577	17,655	—	25,232	24,219
Current portion of operating leases		2,775	443	—	3,218	—
Current portion of long-term debt		15,390	294	(5,000)	10,684	9,332
Total current liabilities		123,126	58,721	(12,553)	169,294	176,960
Long-term debt, less current portion		218,455	5,241	(2,100)	221,596	228,764
Long-term operating leases, less current portion		12,344	2,296	—	14,640	—
Professional liability, less current portion		6,467	11,349	—	17,816	15,875
Pension liability		24,044	—	—	24,044	24,947
Other liabilities		14,400	4,732	—	19,132	16,374
Total liabilities		398,836	82,339	(14,653)	466,522	462,920
Net assets:						
Controlling interests		249,703	152,623	—	402,326	369,686
Noncontrolling interests		1,071	—	—	1,071	1,193
Net assets without donor restrictions		250,774	152,623	—	403,397	370,879
Net assets with donor restrictions		14,628	17,219	(14,628)	17,219	16,614
Total net assets		265,402	169,842	(14,628)	420,616	387,493
Total liabilities and net assets	$	664,238	252,181	(29,281)	887,138	850,413

See accompanying independent auditors' report.

Schedule II

SAMARITAN HEALTH SERVICES, INC.

Supplementary Schedule – Statement of Operations and Changes in Net Assets Without Donor Restrictions Information

Years ended December 31, 2019 and 2018

(Dollars in thousands)

		Obligated group	Nonobligated group	Eliminating entries	2019	2018
Revenue:						
Net patient service revenue	$	760,039	82,166	(114,826)	727,379	687,270
Premium revenue		22,649	421,186	(6,208)	437,627	426,136
Other operating revenue		84,633	12,891	(29,330)	68,194	54,892
Total revenue		867,321	516,243	(150,364)	1,233,200	1,168,298
Expenses:						
Salaries and wages		416,984	55,336	—	472,320	461,056
Employee benefits		55,365	18,382	(6,208)	67,539	68,419
Medical services		45,372	353,610	(119,803)	279,179	258,139
Supplies		151,369	17,734	(1,586)	167,517	160,779
Purchased services		82,067	40,889	(12,580)	110,376	94,942
Utilities, insurance, and other		69,012	22,332	(10,187)	81,157	79,790
Depreciation		30,945	2,216	—	33,161	31,852
Interest and amortization		7,851	225	(63)	8,013	8,369
Total expenses		858,965	510,724	(150,427)	1,219,262	1,163,346
Excess (deficit) of revenue over expenses from operations		8,356	5,519	63	13,938	4,952
Other income, net:						
Investment income		8,482	6,849	(63)	15,268	4,080
Other income (loss)		(848)	(530)	—	(1,378)	(362)
Total other income, net		7,634	6,319	(63)	13,890	3,718
Excess of revenue over expenses		15,990	11,838	—	27,828	8,670
Change in net unrealized gains and losses on investments		196	2,484	—	2,680	(3,223)
Net assets released from restrictions used for capital acquisition		—	3,284	—	3,284	624
Net assets transferred for capital		3,284	(3,284)	—	—	—
Change in pension liability		(712)	—	—	(712)	4,107
Distributions to noncontrolling interest in consolidated joint ventures		(1,767)	—	—	(1,767)	(1,442)
Other		2,415	(1,210)	—	1,205	372
Change in net assets without donor restrictions	$	19,406	13,112	—	32,518	9,108

See accompanying independent auditors' report.