ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Schedules

September 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Directors
Asante Health System and subsidiaries:

We have audited the accompanying consolidated financial statements of Asante Health System and its subsidiaries, which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Asante Health System and its subsidiaries as of September 30, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included on pages 36 to 38 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

KPMG LLP

Portland, Oregon
December 9, 2020

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2020 and 2019

(In thousands)

Assets	**2020**	**2019**
Current assets:		
Cash and cash equivalents	$ 177,267	71,145
Assets whose use is limited, current portion	15,324	12,174
Patient accounts receivable, net	114,608	121,580
Accrued interest and other receivables	20,684	23,648
Inventories	17,852	15,939
Prepaid expenses	14,369	12,496
Total current assets	360,104	256,982
Assets whose use is limited:		
Restricted by donors	20,197	17,102
Beneficial interest in Asante Ashland Community Hospital Foundation	5,293	1,466
Assets restricted under bond indenture	300,527	—
Board and other designated assets	27,528	24,806
	353,545	43,374
Less amount required to meet current obligations	15,324	12,174
	338,221	31,200
Marketable securities	691,954	657,906
Property, plant, and equipment, net	379,318	342,216
Land held for future use	10,809	10,809
Other assets, net	16,747	11,882
Total assets	$ 1,797,153	1,310,995

See accompanying notes to consolidated financial statements.

(Continued)

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2020 and 2019

(In thousands)

Liabilities and Net Assets		2020	2019
Current liabilities:			
Accounts payable	$	26,440	16,759
Payroll, payroll taxes, and related benefits		53,783	43,499
Self-insurance liability, current portion		10,696	13,033
Estimated reimbursement due to government agencies, net		6,549	4,505
Other current liabilities		41,405	34,418
Medicare accelerated and advance payment		73,031	—
Current portion of long-term debt and capital lease obligations		15,348	12,174
Total current liabilities		227,252	124,388
Long-term debt and capital lease obligations, net of current portion and unamortized bond cost		555,919	224,177
Pension benefit obligation		15,844	16,244
Other long-term liabilities		29,857	27,736
Total liabilities		828,872	392,545
Net assets:			
Without donor restrictions		942,783	899,876
With donor restrictions		25,498	18,574
Total net assets		968,281	918,450
Total liabilities and net assets	$	1,797,153	1,310,995

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended September 30, 2020 and 2019

(In thousands)

		2020	2019
Revenue and other support:			
Net patient service revenue	$	940,534	961,040
Other operating revenue		57,956	20,088
Total revenue and other support		998,490	981,128
Operating expenses:			
Salaries and benefits		559,638	525,415
Supplies		191,664	188,404
Purchased services		71,164	67,663
Professional fees		16,481	15,646
Repairs and maintenance		11,924	12,511
Insurance		2,230	2,794
Rent and utilities		11,614	11,441
Interest and amortization		9,246	11,223
Depreciation		49,241	48,344
Provider tax expense		47,291	45,945
Other		8,551	13,762
Total operating expenses		979,044	943,148
Operating income		19,446	37,980
Nonoperating income (loss):			
Investment income, net of fees		26,544	35,784
Change in unrealized gains and losses on trading investments		6,951	(15,213)
Other, net		(4,866)	(9,689)
Loss on extinguishment of debt		(5,432)	—
Total nonoperating income		23,197	10,882
Excess of revenue over expenses, carried forward	$	42,643	48,862

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2020 and 2019

(In thousands)

		2020	2019
Assets without donor restrictions:			
Excess of revenue over expenses, carried forward	$	42,643	48,862
Net assets released from restrictions used for purchases of property, plant, and equipment		264	12
Other		—	(197)
Increase in net assets without restrictions		42,907	48,677
Assets with donor restrictions:			
Contributions and investment income		9,035	3,965
Net assets released from restrictions		(2,111)	(1,372)
Increase in net assets with restrictions		6,924	2,593
Increase in net assets		49,831	51,270
Net assets, beginning of year		918,450	867,180
Net assets, end of year	$	968,281	918,450

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2020 and 2019

(In thousands)

		2020	2019
Cash flows from operating activities:			
Increase in net assets	$	49,831	51,270
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		48,263	53,866
Gain on property, plant, and equipment		(3,158)	(398)
Loss on extinguishment of debt		5,432	—
Realized and net change in unrealized gains and losses on marketable securities		(14,380)	(825)
Earnings of healthcare joint ventures		(1,730)	(1,026)
Change in interest in AACH Foundation		(3,827)	—
Distributions from investments in healthcare ventures		1,077	818
Restricted contributions		(896)	—
Change in operating assets and liabilities:			
Operating assets		1,937	(15,127)
Operating liabilities		94,445	17,484
Net cash provided by operating activities		176,994	106,062
Cash flows from investing activities:			
Purchases of property, plant, and equipment		(77,014)	(53,734)
Sales of marketable securities and assets whose use is limited		335,074	195,010
Purchases of marketable securities and assets whose use is limited		(661,085)	(218,200)
Investment in healthcare ventures		—	(675)
Net cash used in investing activities		(403,025)	(77,599)
Cash flows from financing activities:			
Principal payments on long-term debt and capital lease obligations		(210,169)	(12,795)
Bond issue costs paid		(3,146)	—
Proceeds from long-term debt		544,572	7,154
Restricted Contributions		896	—
Net cash provided by (used in) financing activities		332,153	(5,641)
Net increase in cash and cash equivalents		106,122	22,822
Cash and cash equivalents, beginning of year		71,145	48,323
Cash and cash equivalents, end of year	$	177,267	71,145
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of amounts capitalized	$	9,982	11,466
Change in capital purchases in accounts payable		6,967	287
Assumption of mortgages		—	2,992

See accompanying notes to consolidated financial statements.

(1) Organization

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

Asante Corporate (Parent Company)

Corporate is a system-wide administrative function supporting Asante's integrated delivery system.

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

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

(i) Asante Rogue Regional Medical Center (ARRMC)

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

(ii) Asante Three Rivers Medical Center (ATRMC)

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

(iii) Asante Ashland Community Hospital (AACH)

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

(iv) Siskiyou Imaging

Siskiyou Imaging is an Oregon limited liability company (LLC) providing magnetic resonance imaging services in Ashland. The venture is jointly owned by Asante (33.3%), AACH (33.3%), and a physician group (33.3%). The joint venture with Asante, AACH and Siskiyou imaging was dissolved in December 2019.

(b) Other Affiliates

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

(i) Asante Physician Partners (APP)

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

(ii) Asante Foundation (the Foundation)

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

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

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

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

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

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

HASO is a disregarded entity LLC functioning as a provider network structure amongst community providers, APP providers, and Asante hospitals. Its purpose is to aggregate providers and facilities to improve quality, efficiency, and patient satisfaction in the marketplace through innovative payment arrangements with payors and employers. Currently there are over 700 providers including 34 physician groups representing virtually every medical and surgical specialty.

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

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

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates in Asante's consolidated financial statements include accounts receivable allowances, liabilities related to self-insurance programs, and the pension obligation.

(c) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid financial instruments with original maturities of three months or less when purchased. Cash equivalent balances included in cash and cash equivalents in the consolidated balance sheets at September 30, 2020 and 2019 are $7,424,000 and $5,543,000, respectively. Cash equivalents exclude those balances held as a portion of assets whose use is limited or marketable securities.

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

(d) Patient Accounts Receivable

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

	September 30	
	2020	2019
Medicare	34 %	29 %
Medicaid	14	11
Private pay	1	1
Commercial	45	48
Others	6	11
	100 %	100 %

(e) Inventories

Inventories of supplies are valued on weighted average cost.

(f) Assets Whose Use is Limited

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

Assets restricted under bond indenture include proceeds from the Series 2020A – Tax Exempt and 2020B – Federally Taxable bond issuance which established project funds. The project funds will be used for various service expansions including a new patient pavilion at ARRMC, expansion of emergency department at ATRMC and two regional cancer centers in Medford and Grants Pass.

(g) Marketable Securities

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

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nonoperating income. Unrealized gains and losses on trading securities are included in nonoperating income (loss) in the accompanying consolidated statements of operations.

(h) Property, Plant, and Equipment

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

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

Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included within depreciation in the accompanying consolidated financial statements.

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

Asante assesses potential impairment to its long-lived assets, including land held for future use, when there is evidence that events or changes in circumstances have made recovery of the asset’s carrying value unlikely. An impairment loss is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. No impairment losses have been identified as of September 30, 2020 and 2019.

(i) Financing Costs

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

(j) Investments in Healthcare Ventures

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

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(k) Self-Insurance

(i) Workers' Compensation

The annual self-insured retention under Asante's workers' compensation program is $750,000 per claim per year. Asante carries an excess coverage policy for its workers' compensation program. The accrued liability for the self-insured components of the plan includes the unpaid portion of claims that have been reported and estimates for claims that have been incurred but not reported. The actuarially determined total estimated gross liability at September 30, 2020 is $8,078,000, with $2,425,000 of this amount insured estimated to be covered by coverage provided by excess carriers. The actuarially determined total estimated gross liability at September 30, 2019 is $9,146,000, with $2,889,000 of this amount insured estimated to be covered by coverage provided by excess carriers. The current portion of the accrued liability for workers' compensation is included in self-insurance liability. The long-term portion of the accrued liability is included in other long-term liabilities.

(ii) Medical

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

The actuarially determined estimated liability for Asante is $4,965,000 and $5,375,000 at September 30, 2020 and 2019, respectively, and is included in self-insurance liability.

(iii) Professional Liability

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

The total expected value of the undiscounted estimated gross liability for Asante at September 30, 2020 is $24,672,000 with $7,810,000 of this amount estimated to be covered by excess carriers. The total expected value of the undiscounted estimated gross liability for Asante at September 30, 2019 is $23,059,000, with $4,017,000 of this amount estimated to be covered by excess carriers. The current portion of the liability is recorded in self-insurance liability. The long-term portion is included in other long-term liabilities. The receivable for insurance recoveries is included in other assets.

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

(l) Oregon State Provider Tax

The State of Oregon operates a provider tax program related to certain patient service revenue at certain qualifying hospitals. Asante recorded provider tax expenses of approximately $47,291,000 and $49,948,000 for the years ended September 30, 2020 and 2019, respectively. Asante recorded provider tax liabilities of $11,798,000 and $12,458,000 at September 30, 2020 and 2019, respectively, which are included in other current liabilities in the accompanying consolidated balance sheets. In addition, Asante has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments to Asante related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to Asante. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to the qualifying hospitals. The amounts received or receivable from OAHHS for the years ended September 30, 2020 and 2019 are $47,291,000 and $45,945,000, respectively, which are reflected as a component of net patient service revenue in the accompanying consolidated statements of operations. Asante recorded receivables of $11,760,000 and $12,418,000 at September 30, 2020 and 2019, respectively, which are included in other receivables in the accompanying consolidated balance sheets.

(m) Net Assets

(i) Assets without Donor Restrictions

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

(ii) Assets with Donor Restrictions

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

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

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

		2020	2019
Capital	$	6,427	5,258
Child and infant health (capital)		3,127	2,658
Restricted for specific purpose at AACH		5,293	1,472
Others		10,651	9,186
Total net assets with donor restrictions	$	25,498	18,574

(n) Net Patient Service Revenue

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

(o) Other Operating Revenue

Other operating revenue includes revenue from nonpatient care services, clinical revenue, miscellaneous revenue, COVID-19 grant funds and CARES Act provider relief funds.

(p) Charity Care

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

(q) Nonoperating Income

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

(r) Net Contributions from the Foundation

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

		2020	2019
Other revenue	$	2,273	2,930
Unrestricted revenue		2,273	2,930
Salaries and benefits		1,378	1,178
Supplies		286	241
Purchased services		526	685
Rent and utilities		33	4
Other		1,723	1,604
Total expenses		3,946	3,712
Loss prior to investment income		(1,673)	(782)
Net unrealized gains (losses) on trading investments		1,213	(1,389)
Deficit of revenue over expenses	$	(460)	(2,171)

(s) Excess of Revenue over Expenses

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

(t) Federal and State Income Taxes

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Asante and recognize a tax liability (or asset) if Asante has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by Asante and has concluded that as of September 30, 2020, there are no uncertain positions taken, or expected to be taken, that would require recognition of

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a liability (or an asset) or disclosure in the consolidated financial statements. Asante is subject to routine audits by taxing jurisdictions.

(u) Recently Adopted Accounting Pronouncements

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. Asante adopted the new standard on October 1, 2019 and applied the provisions of the standard retrospectively. Asante recorded nonoperating (expense) income of $(2,175,000) and $(6,117,000) for increases in net periodic benefit costs and other plan administration expenses of the Ashland Community Hospital Retirement Plan for the years ended September 30, 2020 and 2019, respectively. These amounts are included in Other, net in the nonoperating section of the consolidated statement of operations.

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. Asante adopted the ASU on a retrospective basis on October 1, 2019 and determined there were no material changes to the statement of cash flows.

(i) Upcoming Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 amends the FASB Accounting Standards Codification (ASC) and created ASC Topic 842, *Leases*. Under ASC Topic 842, lessees are required to recognize assets and liabilities on the consolidated balance sheet for most leases and provides for enhanced disclosures. Leases will continue to be classified as either finance or operating. This guidance is effective for Asante on October 1, 2020. Leases that were previously deemed operating will be presented on the consolidated balance sheets and disclosures will be expanded as a result of the adoption. Refer to footnote 15 for the future amounts payable on operating leases. These amounts would be discounted to present value and presented on the balance sheet as a result of the adoption.

(v) Reclassifications

Certain amounts in the consolidated financial statements for the years ended September 30, 2020 and 2019 have been reclassified to be consistent with current year presentation.

(3) COVID-19

On March 11, 2020, the World Health Organization announced the Novel Coronavirus Disease (COVID-19) Outbreak a global pandemic and shortly following a national emergency declaration concerning the COVID-19 outbreak was enacted. Subsequently, Asante has been operating under Federal Government, along with State and local, mandates as of March 13, 2020, including a State of Emergency for Oregon declared by Governor Kate Brown in early March, which extended through the fiscal year end. In response to COVID-19, and guidance from state and local public health authorities, Asante began modified operations in mid-March 2020 and continues to operate under some level of modified operations.

The Coronavirus Aid, Relief and Economic Security (CARES) Act, which was enacted on March 27, 2020, authorized $100 billion on funding to hospitals and other healthcare providers as provider relief funds (PRF). Payments from the provider relief fund were intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic. Provider relief funds were not required to be repaid provided recipients attest to and comply with certain terms and conditions, including limits on COVID-19 balance billing. Asante received $21,213,000 of general distributions and $11,882,000 of targeted funds which were included in other operating revenue for the fiscal year ending September 30, 2020.

In response to COVID-19 and subsequent to the CARES act, the Centers for Medicare and Medicaid Services (CMS), expanded the existing Accelerated and Advance Payments Program in order to accelerate cash flow to impacted health care providers. As of September 30, 2020, Asante received accelerated and advanced payments of $73,031,000, which are recorded as current liabilities as of September 30, 2020.

(4) Marketable Securities and Assets Whose Use is Limited

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

		2020	2019
Corporate equity securities	$	157,516	159,455
Mutual funds		424,285	389,580
Corporate bonds		34,600	28,303
Exchange-traded international index funds		6,984	6,548
U.S. government agency obligations		74,094	69,441
U.S. government obligations		4,333	13,107
Cash equivalents		313,044	19,062
Collateralized mortgage obligations		25,350	14,318
		1,040,206	699,814
Add:			
Assets held by Ashland Community Hospital Foundation		5,293	1,466
Less:			
Assets whose use is limited, current portion		15,324	12,174
Assets whose use is limited, net of current portion		338,221	31,200
Marketable securities	$	691,954	657,906

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

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

The following table presents the balances of assets measured at fair value on a recurring basis at September 30, 2020 (in thousands):

	Level 1	Level 2	Level 3	Fair value
Assets:				
Corporate equity securities:				
Large cap value	$ 54,684	—	—	54,684
Small/mid cap growth	56,173	—	—	56,173
Large cap growth	46,659	—	—	46,659
Total	157,516	—	—	157,516
Mutual funds:				
Equity	263,991	—	—	263,991
Fixed income	152,373	—	—	152,373
Money market	7,921	—	—	7,921
Total	424,285	—	—	424,285
Corporate bonds	—	34,600	—	34,600
Exchange-traded international index funds	6,984	—	—	6,984
U.S. government agency obligations	—	74,094	—	74,094
U.S. government obligations	4,333	—	—	4,333
Cash equivalents	313,044	—	—	313,044
Collateralized mortgage obligations	—	25,350	—	25,350
Total	$ 906,162	134,044	—	1,040,206

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

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

(5) Property, Plant, and Equipment

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

	2020	2019
Land and land improvements	$ 44,022	28,144
Buildings	408,953	387,319
Equipment and furniture	350,979	352,859
Leasehold improvements	2,921	2,921
Buildings under capital leases	5,234	5,234
Property, plant, and equipment, gross	812,109	776,477
Less accumulated depreciation	(487,801)	(459,582)
Property, plant, and equipment, net	324,308	316,895
Construction in progress	55,010	25,321
Total property, plant, and equipment	$ 379,318	342,216

Accumulated amortization for assets under capital lease obligations was $5,095,607 and $5,069,000 at September 30, 2020 and 2019, respectively.

(6) Other Assets

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

	2020	2019
Investments in healthcare ventures	$ 5,716	5,062
Insurance recoverable	10,235	6,906
Other	796	(86)
Total other assets	$ 16,747	11,882

(7) Investments in Healthcare Ventures

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

	Ownership		2020	2019
CVISO Management Company, LLC	25.00 %	$	146	134
Southern Oregon Linen Services	44.46		1,510	1,326
Surgery Center of Southern Oregon, LLC	20.00		1,485	1,291
The Women's Center LLC	50.00		321	266
Investment in CVI Real Property	25.00		776	657
Others	varies		1,478	1,388
Total investments in healthcare ventures		$	5,716	5,062

The investments in these ventures are accounted for under the equity method and are included in other assets, net in the accompanying consolidated balance sheets. Income from the equity investments in joint ventures, which was $1,730,000 and $1,026,000 for the years ended September 30, 2020 and 2019, respectively, is included in other operating revenue in the accompanying consolidated statements of operations.

(8) Long-Term Debt and Capital Lease Obligations

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

		2020	2019
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2002-B, maturing in varying annual amounts, due 2034	$	—	31,275
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2005-A (net of unamortized discount of $0 and $1,103, respectively), maturing in varying annual amounts, due 2040		—	57,897
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2010 (net of unamortized premium of $0 and $1,953, respectively), maturing in varying annual amounts, due 2040		—	115,428
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2020A (inclusive of unamortized premium of $84,999), maturing in varying annual amounts, due 2050		523,944	—

(Continued)

		2020	2019
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2020B, maturing in varying annual amounts, due 2025	$	20,000	—
Oregon Hospital Authority Direct Placement, maturing in varying annual amounts, due 2022 (2015 loan)		5,493	8,166
2016 Note, due 2023		7,882	10,753
2016 Medical Arts Building Note (MOB), due 2026		9,347	9,713
2016 Real Estate loan, due 2021		2,376	2,463
Ramsey Life Note		1,975	2,069
Ramsey Mutual Note		766	802
Ramsey Loan		4,055	4,162
Capital lease obligations		521	541
Total long-term debt and capital lease obligations		576,359	243,269
Less unamortized debt issuance costs		(5,092)	(6,918)
Less current portion		(15,348)	(12,174)
Total long-term debt and capital lease obligations, net of current portion	$	555,919	224,177

Annual maturities of long-term debt and the future minimum capital lease obligations, excluding net bond premium of $84,999,000, are as follows as of September 30, 2020 (in thousands):

		Long-term debt	Capital lease obligations, excluding interest
2021	$	15,325	23
2022		8,749	27
2023		8,883	30
2024		9,019	33
2025		9,213	37
Thereafter		439,650	371
Total long-term debt and capital lease obligations	$	490,839	521

(a) 2002 Series B Bonds

The Series B Bonds were issued in February 2002. The bonds were issued as seven-day auction rate bonds.

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

The 2002 Series B Bond auctions failed in 2008 and for each weekly auction thereafter through July 21, 2020 when the bonds were refinanced. The average rate paid by Asante for the failed auction interest rate during the year ended September 30, 2020 was 2.99%. The rates for those failed auctions ranged between 2.52% and 3.91%.

In 2014, Asante advance refunded $51,025,000 of the 2002 Series B Bonds. As of July 21, 2020, the 2002 Series B bonds were refunded and refinanced with the Series 2020A – Tax Exempt bonds and Series 2020B Federally Taxable bonds.

(b) 2005 Series A Bonds

The 2005 Series A Bonds were issued in November 2005. The bonds bear interest at a rate of 5.0%. The 2005 Series A Bond were refunded and refinanced with the Series 2020A – Tax Exempt bonds and Series 2020B - Federally Taxable bonds.

(c) 2010 Series Bonds

The 2010 Series Bonds were issued in February 2010. The bonds were issued as fixed-rate securities, with maturities beginning in 2012 and final maturity in 2040. The bonds bear interest ranging from 3.0% to 5.5%. The Series 2010 Bonds were refunded and refinanced by the Series 2020A – Tax Exempt bonds and Series 2020B - Federally Taxable bonds.

(d) Series 2020A – Tax Exempt Bonds

The 2020A Series Bonds were issued in July 2020. The bonds were issued as fixed-rate securities, with maturities beginning in 2025 and final maturity in 2050. The bonds bear interest ranging from 2.5% to 5.0%.

(e) Series 2020B – Federally Taxable Bonds

The 2020B Series Bonds were issued in July 2020. The bonds were issued as fixed-rate securities, with maturities beginning in 2022 and final maturity in 2025. The bonds bear interest ranging from 1.65% to 1.88%.

(f) 2015 Loan

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

(g) 2016 Note

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

(Continued)

(h) 2016 MOB Note

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

(i) 2016 Real Estate Loan

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

(j) Ramsey Life Note

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

(k) Ramsey Mutual Note

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

(l) Ramsey Loan

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

(m) Line of Credit and Guarantees

Asante has a $10,000,000 revolving line-of-credit arrangement with a commercial bank. The line of credit has an interest rate of the daily LIBOR plus 1.25%. There were no outstanding borrowings against the line at September 30, 2020 and 2019, respectively. The line of credit expires on July 30, 2021.

Asante guarantees a loan for CVI Real Property, LLC, which owns a building on the ARRMC campus. The amount of this loan was $3,099,773 and $3,219,000 at September 30, 2020 and 2019, respectively.

Asante has a 25% guarantee of indebtedness for CVISO Management Company, LLC. This guarantee is for an operating line of credit in an amount up to $500,000. There was no balance outstanding on the line of credit at September 30, 2020 or 2019.

Asante guarantees a loan for The Women’s Center, LLC, which owns a building adjacent to the ATRMC campus. The amount of this loan was $4,703,672 and $4,747,796 at September 30, 2020 and 2019, respectively.

(n) Debt Covenants

The bond indentures and other loan agreements contain, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of debt service coverage and other ratios. Management believes that Asante is in compliance with these covenants as of September 30, 2020.

(9) Retirement Plan

Asante sponsors the Asante Retirement Plan and Trust, a defined-contribution plan, which has two components: the matching plan and the basic plan. Under the basic plan, Asante contributes 3% of the employee's salary to a tax deferred account. All eligible employees receive this contribution, whether or not they contribute to a tax deferred account. Under the matching plan, after completion of one year of service, Asante matches 50% of the employee's contribution, up to a maximum match of 3% of the employee's pay. To be eligible for both the basic and matching plans, employees must work at least one year and maintain a work level of at least 1,000 hours per year. Contributions are funded every two weeks and are fully and immediately vested. Costs related to these defined-contribution plans for Asante totaled $19,566,000 and $19,455,000 for the years ended September 30, 2020 and 2019, respectively.

(10) Defined-Benefit Pension Plan

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

The following table sets forth disclosures related to the Plan in accordance with FASB ASC Section 715-20-65, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of September 30, 2020 and 2019 (in thousands):

		2020	2019
Change in projected benefit obligation:			
Projected benefit obligation (PBO) at beginning year	$	43,807	38,669
Interest cost		1,258	1,531
Actuarial gain on PBO, net		2,509	5,209
Benefits paid		(1,688)	(1,602)
Projected benefit obligation at year-end	$	45,886	43,807
Change in fair value of plan assets:			
Fair value of assets at beginning of year	$	27,563	26,370
Contributions		2,575	2,172
Actual return on plan assets		1,592	623
Benefits paid		(1,688)	(1,602)
Fair value of assets at end of year	$	30,042	27,563
Reconciliation of funded status:			
Funded status – liability	$	15,844	16,244
Net amount recognized	$	15,844	16,244

(Continued)

Asante immediately recognizes all changes in funded status within excess of revenue over expenses at each funding date. These changes are included in nonoperating income other, net on the consolidated statement of operations.

The accumulated benefit obligation for the Plan is the same as the projected benefit obligation at September 30, 2020 and 2019.

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

		2020	2019
Interest cost	$	1,258	1,531
Expected return on plan assets		(1,668)	(1,596)
Recognized actuarial loss (gain)		2,585	6,182
Net periodic pension cost (benefit)		2,175	6,117
Other changes in pension liability		—	—
Total pension expense (benefit)	$	2,175	6,117

Assumptions

Asante used the following actuarial assumptions to determine its benefit obligations at September 30, 2020 and 2019:

	2020	2019
Discount rate	2.32 %	2.94 %

Asante used the following actuarial assumptions to determine its net periodic benefit cost for the years ended September 30, 2020 and 2019:

	2020	2019
Discount rate	2.94 %	4.06 %
Expected long-term rate of return on plan assets	6.00	6.00

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

The mortality assumptions were based on the PRI-2012 table with MP-2019 projections as of September 30, 2020.

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

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

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

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

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

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. In accordance with FASB ASC Topic 820, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to estimate fair value. See note 4 for the definitions of the three levels within the fair value hierarchy.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2020 (in thousands):

		Level 1	Level 2	Level 3	Total fair value
Cash and equivalents	$	—	—	—	—
U.S. Common Stock		4,858	—	—	4,858
Government Agency Securities		—	3,637	—	3,637
Mutual funds:					
Large cap		6,022	—	—	6,022
Mid cap		2,181	—	—	2,181
Small cap		1,549	—	—	1,549
International		6,638	—	—	6,638
Fixed income		3,242	—	—	3,242
High yield		1,162	—	—	1,162
Other		753	—	—	753
Total plan assets at fair value	$	26,405	3,637	—	30,042

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

		Level 1	Level 2	Level 3	Total fair value
Cash and equivalents	$	554	—	—	554
U.S. Common Stock		5,529	—	—	5,529
Government Agency Securities		3,707	—	—	3,707
Mutual funds:					
Large cap		5,493	—	—	5,493
Mid cap		1,928	—	—	1,928
Small cap		1,236	—	—	1,236
International		2,858	—	—	2,858
Fixed income		3,047	—	—	3,047
High yield		1,054	—	—	1,054
Other		2,157	—	—	2,157
Total plan assets at fair value	$	27,563	—	—	27,563

Cash Flows

Asante's policy with respect to funding the Plan is to fund a least the minimum required by the Employee Retirement Income Security Act of 1974, as amended, plus such additional amounts deemed appropriate. In fiscal year 2021, Asante expects to contribute approximately $564,000 to the Plan.

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

		Pension benefits
2021	$	2,048
2022		2,070
2023		2,113
2024		2,158
2025		2,180
2026–2030		11,258

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

(11) Net Patient Service Revenue

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

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

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

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

Medicare/Medicaid – Inpatient acute care services rendered to these program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The majority of Medicare outpatient services are reimbursed based on the prospective payment system known as Ambulatory Payment Classification. Asante is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by Asante and audits thereof by the third-party payors.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Asante's historical settlement activity and are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments from finalization and adjustment of prior years' cost reports and other third-party settlement estimates resulted in an increase in net patient service revenue of approximately $1,414,000 for September 30, 2020 and a decrease of $804,000 for the year ended September 30, 2019.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance. Asante also provides services to uninsured patients and offers those uninsured patients a discount from standard charge. Asante estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended September 30, 2020 and 2019 was not significant.

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

(Continued)

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

		2020	2019
Revenue by payor:			
Medicare	$	364,962	395,160
Medicaid		175,032	164,365
Commercial and others		382,896	398,155
Private pay		17,644	3,360
	$	940,534	961,040

		2020	2019
Patient revenue:			
Inpatient revenue	$	442,174	444,174
Outpatient revenue		498,360	516,866
	$	940,534	961,040

(12) Charity and Community Benefit

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

		2020	2019
Cost of charges forgone:			
Charity care services	$	7,542	7,768
Medicaid services, net of reimbursement		60,548	58,938
Medicare services, net of reimbursement		101,154	88,869
Other public services		8,371	5,488
Total charity and government programs	$	177,615	161,063

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

(13) Functional Classification of Operating Expenses

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

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

		2020		
		Patient services	Support services	Total
Salaries and benefits	$	414,939	144,699	559,638
Supplies		179,699	11,965	191,664
Purchased services		29,110	42,054	71,164
Professional fees		1,750	14,731	16,481
Repairs and maintenance		8,785	3,139	11,924
Insurance		1,400	830	2,230
Rent and utilities		1,215	10,399	11,614
Interest and amortization		—	9,246	9,246
Depreciation		—	49,241	49,241
Provider tax		47,291	—	47,291
Other		2,221	6,330	8,551
Total	$	686,410	292,634	979,044

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

(Continued)

(14) Liquidity

As of September 30, 2020, Asante has working capital excess of $132,852,000 and average days (based on normal expenditures) cash on hand of 352 days.

The table below represents financial assets available for general expenditures within one year at September 30, 2020:

		2020	2019
Financial assets at year end:			
Cash and cash equivalents	$	177,267	71,145
Accounts receivable, net		114,608	121,580
Marketable securities		691,954	657,906
Total financial assets	$	983,829	850,631

Asante has other assets limited to use for donor-restricted purposes and debt service. Additionally, certain other foundation donor restricted assets are designated for future capital expenditures. These assets limited to use, which are more fully described in note 2(m), are not available for general expenditure within the next year and are not reflected in the amounts above. Additionally, Asante maintains a $10,000,000 line of credit, as discussed in more detail in note 8(m). As of September 30, 2020, the full amount remained available on Asante's line of credit.

(15) Commitments and Contingencies

(a) Risk Management

In the ordinary course of business, Asante is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. However, management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the years ended September 30, 2020 and 2019.

(b) Regulations and Litigation

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

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

(c) Operating Leases

Asante leases various buildings, office space, and equipment under noncancelable operating leases. These leases expire at various times and have various renewal options. Rent expense related to these leases was $2,997, 000 and $3,430,000 for the years ended September 30, 2020 and 2019, respectively. Future minimum lease commitments at September 30, 2020 under noncancelable operating leases with initial terms of one year or more are as follows (in thousands):

	September 30, 2020
2021	$ 2,748
2022	2,687
2023	2,441
2024	1,845
2025	1,603
Thereafter	12,930

(d) Collective Bargaining Agreements

Approximately 16.5% of Asante's employees are covered by a collective bargaining agreement. All employees are bedside nurses with the Oregon Nurses Association working at ARRMC. One contract covers all the employees in this bargaining unit, and the most recent contract expired July 31, 2020. A tentatively agreed upon contract was being voted on by the members with ratification expected to occur in December 2020 with a contract end date of September 30, 2023.

(e) Purchase Commitments

Asante has committed to various construction and information technology purchases, including ARRMC Parking Garage, ARRMC Cancer Center, ARRMC Pavilion design and preconstruction and ATRMC Emergency Department. As of September 30, 2020, total future commitments for these projects total approximately $66,891,000. Commitments are expected to be funded by the Series 2020A - Tax Exempt bond funds, Series 2020B - Federally Tax Exempt bond funds and excess working capital.

(16) Subsequent Events

Asante has evaluated the impact of subsequent events through December 9, 2020, the date on which the consolidated financial statements were issued and has determined that all subsequent events have been appropriately reflected in the accompanying consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

September 30, 2020

(In thousands)

Assets	Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Current assets:				
Cash and cash equivalents	$ 169,197	8,070	—	177,267
Assets whose use is limited, current portion	15,324	—	—	15,324
Patient accounts receivable, net	110,433	4,175	—	114,608
Accrued interest and other receivables	18,953	1,731	—	20,684
Inventories	17,852	—	—	17,852
Prepaid expenses	14,250	119	—	14,369
Total current assets	346,009	14,095	—	360,104
Intercompany receivable (payable)	166,371	(166,371)	—	—
Assets whose use is limited:				
Restricted by donors	—	20,197	—	20,197
Beneficial interest in AACH Foundation	—	5,293	—	5,293
Assets restricted under bond indenture	300,527	—	—	300,527
Board and other designated assets	15,324	12,204	—	27,528
	315,851	37,694	—	353,545
Less amount required to meet current obligations	15,324	—	—	15,324
	300,527	37,694	—	338,221
Marketable securities	669,376	22,578	—	691,954
Property, plant, and equipment, net	353,958	25,360	—	379,318
Land held for future use	10,809	—	—	10,809
Beneficial interest in Asante Foundation	32,863	—	(32,863)	—
Other assets, net	16,531	216	—	16,747
Total assets	$ 1,896,444	(66,428)	(32,863)	1,797,153

(Continued)

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

September 30, 2020

(In thousands)

Liabilities and Net Assets		Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Current liabilities:					
Accounts payable	$	26,088	352	—	26,440
Payroll, payroll taxes, and related benefits		52,454	1,329	—	53,783
Self-insurance liability, current portion		8,222	2,474	—	10,696
Estimated reimbursement due to government agencies, net		6,549	—	—	6,549
Other current liabilities		32,394	9,011	—	41,405
Medicare accelerated and advance payments		73,031	—	—	73,031
Current portion of long-term and capital lease obligations		15,348	—	—	15,348
Total current liabilities		214,086	13,166	—	227,252
Long-term debt and capital lease obligations, net of current portion and unamortized bond cost		555,919	—	—	555,919
Pension benefit obligation		15,844	—	—	15,844
Other long-term liabilities		23,507	6,350	—	29,857
Total liabilities		809,356	19,516	—	828,872
Net assets:					
Without donor restrictions		1,066,884	(111,436)	(12,665)	942,783
With donor restrictions		20,204	25,492	(20,198)	25,498
Total net assets		1,087,088	(85,944)	(32,863)	968,281
Total liabilities and net assets	$	1,896,444	(66,428)	(32,863)	1,797,153

See accompanying independent auditors’ report.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Operations and Changes in Net Assets Information

Year ended September 30, 2020

(In thousands)

	Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Revenue and other support:				
Net patient service revenue	$ 881,424	59,110	—	940,534
Other operating revenue	46,115	11,841	—	57,956
Total revenue and other support	927,539	70,951	—	998,490
Operating expenses:				
Salaries and benefits	479,042	80,596	—	559,638
Supplies	187,420	4,244	—	191,664
Purchased services	62,260	8,904	—	71,164
Professional fees	15,854	627	—	16,481
Repairs and maintenance	11,679	245	—	11,924
Insurance	(671)	2,901	—	2,230
Rent and utilities	11,306	308	—	11,614
Interest and amortization	8,181	1,065	—	9,246
Depreciation	46,918	2,323	—	49,241
Provider tax expense	47,291	—	—	47,291
Other	6,049	2,502	—	8,551
Total operating expenses	875,329	103,715	—	979,044
Operating income (loss)	52,210	(32,764)	—	19,446
Nonoperating income	22,515	682	—	23,197
Excess (deficit) of revenues over expenses	74,725	(32,082)	—	42,643
Net assets without restrictions released from restrictions used for purchases of property, plant, and equipment	285	(21)	—	264
Increase (decrease) in net assets without donor restrictions	75,010	(32,103)	—	42,907
Net assets with donor restriction:				
Contributions and investment income	5,207	9,034	(5,206)	9,035
Net assets released from restrictions	(2,111)	(7,634)	7,634	(2,111)
Increase (decrease) in net assets with restrictions	3,096	1,400	2,428	6,924
Increase (decrease) in net assets	78,106	(30,703)	2,428	49,831
Net assets, beginning of year:				
Without donor restrictions	991,874	(79,333)	(12,665)	899,876
With donor restrictions	17,108	24,092	(22,626)	18,574
Net assets, end of year	$ 1,087,088	(85,944)	(32,863)	968,281

See accompanying independent auditors’ report.