SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Financial Statements and Supplemental Schedules

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

SALEM HEALTH HOSPITALS AND CLINICS

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

Independent Auditors' Report

The Board of Trustees
Salem Health Hospitals and Clinics:

We have audited the accompanying consolidated financial statements of Salem Health Hospitals and Clinics and its subsidiaries, which comprise the consolidated balance sheets as of June 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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 Salem Health Hospitals and Clinics and its subsidiaries as of June 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, on July 1, 2019, Salem adopted new accounting guidance in Accounting Standards Update ASU 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

KPMG

Other Matters

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as whole. The lean initiatives footnote included in note 16 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The supplementary consolidating information included in schedules 1 through 4 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 taken as a whole.

KPMG LLP

Portland, Oregon
October 2, 2020

SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Balance Sheets

June 30, 2020 and 2019

(In thousands)

Assets		2020	2019
Current assets:			
Cash and cash equivalents	$	45,400	15,547
Patient accounts receivable, less reserves for price concessions		99,546	101,503
Other receivables		16,692	17,150
Supplies inventory		8,874	8,174
Prepaid expenses and other		10,028	8,942
Total current assets		180,540	151,316
Investments		1,046,065	740,651
Property and equipment, net		525,382	481,268
Rental and other property held for future development, net of accumulated depreciation of $4,178 in 2020 and $4,023 in 2019		52,321	32,050
Investments in health related entities		21,635	21,183
Other noncurrent assets		16,312	5,501
Total assets	$	1,842,255	1,431,969
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	51,819	40,837
Accrued liabilities:			
Payroll, payroll taxes, and withholdings		21,731	14,075
Paid time off		23,241	20,727
Other		76,133	12,506
Estimated third-party payor settlements, net		5,825	3,004
Current portion of long-term debt		11,595	6,346
Current portion of estimated professional liability		1,775	1,759
Total current liabilities		192,119	99,254
Long-term debt, net of current portion		508,783	266,044
Accrued postretirement healthcare benefits		6,204	6,978
Fair value of interest rate swap agreement		—	11,982
Other long-term liabilities		10,960	133
Estimated professional liability, net of current portion		8,289	8,212
Total liabilities		726,355	392,603
Net assets:			
Without donor restrictions		1,108,368	1,033,295
With donor restrictions		7,532	6,071
Total net assets		1,115,900	1,039,366
Total liabilities and net assets	$	1,842,255	1,431,969

See accompanying notes to consolidated financial statements.

SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Statements of Operations

Years ended June 30, 2020 and 2019

(In thousands)

		2020	2019
Operating revenue:			
Net patient service revenue	$	803,343	802,200
Other revenue		60,799	46,650
Net assets released from donor restriction used for operations		353	553
Total operating revenues		864,495	849,403
Operating expenses:			
Labor and benefits		501,101	464,223
Medical and other supplies		117,421	117,731
Purchased services and other		119,175	131,555
Depreciation		49,671	46,885
Professional fees		22,689	27,244
Interest and amortization		12,066	10,565
Total operating expenses		822,123	798,203
Excess of revenue over expenses from operations		42,372	51,200
Other income (expense):			
Investment income, net		38,240	43,323
Loss on bond refunding		(8,660)	—
Loss on disposal of property and equipment		(1,456)	(787)
Other, net		(4,572)	(1,612)
Total other income, net		23,552	40,924
Excess of revenue over expenses		65,924	92,124
Change in fair value of interest rate swap agreement		(837)	(2,823)
Reclassification of interest rate swap upon termination		8,957	—
Change in net unrealized gain or loss on fixed income investments		598	473
Change in postretirement benefit obligation		414	(1,898)
Net assets released from donor restriction used for property and equipment		17	68
Change in net assets without donor restrictions	$	75,073	87,944

See accompanying notes to consolidated financial statements.

SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2020 and 2019

(In thousands)

		Without donor restrictions	With donor restrictions	Total
Net assets at June 30, 2018	$	945,351	6,039	951,390
Excess of revenue over expenses		92,124	—	92,124
Change in fair value of interest rate swap agreement		(2,823)	—	(2,823)
Change in net unrealized gain on other-than-trading securities		473	—	473
Change in postretirement benefit obligation		(1,898)	—	(1,898)
Net assets released from restriction used for property and equipment		68	(68)	—
Contributions with donor restrictions		—	542	542
Donor restricted investment and other income, net		—	111	111
Net assets released from restrictions for operations		—	(553)	(553)
Change in net assets		87,944	32	87,976
Net assets at June 30, 2019		1,033,295	6,071	1,039,366
Excess of revenue over expenses		65,924	—	65,924
Change in fair value of interest rate swap agreement		(837)	—	(837)
Reclassification of interest rate swap upon termination		8,957	—	8,957
Change in net unrealized gain on other-than-trading securities		598	—	598
Change in postretirement benefit obligation		414	—	414
Net assets released from restriction used for property and equipment		17	(17)	—
Contributions with donor restrictions		—	1,832	1,832
Donor restricted investment and other income, net		—	(1)	(1)
Net assets released from restrictions for operations		—	(353)	(353)
Change in net assets		75,073	1,461	76,534
Net assets at June 30, 2020	$	1,108,368	7,532	1,115,900

See accompanying notes to consolidated financial statements.

SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

		2020	2019
Cash flows from operating activities:			
Change in net assets	$	76,534	87,976
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		48,041	46,662
Change in net unrealized gains on investments and realized gains on sales of investments		(21,655)	(28,588)
Change in fair value of interest rate swap agreement		837	2,823
Cash collections on contributions for long-term purposes		(1,450)	(68)
Non-cash increase in net assets from bond refunding		(298)	—
Loss on disposal of property and equipment		1,456	787
Equity Income on Joint Venture		(2,396)	(1,269)
Equity Distributions from Joint Venture		1,980	782
Changes in operating assets and liabilities:			
Patient accounts receivable		1,957	(9,820)
Other receivables		458	(1,571)
Supplies inventory		(700)	(1,008)
Prepaid expenses		(1,077)	(2,518)
Other noncurrent assets		(650)	(81)
Accounts payable		(3,345)	3,205
Accrued liabilities		73,797	7,916
Estimated third-party payor settlements, net		2,821	1,032
Accrued postretirement healthcare benefits		(774)	1,474
Other long-term liabilities		(3,805)	22
Estimated professional liability		93	545
Net cash provided by operating activities		171,824	108,301
Cash flows from investing activities:			
Purchases of investments		(424,986)	(49,488)
Investment in healthcare related ventures		(10,197)	(20,000)
Proceeds from sales of investments		141,227	37,842
Proceeds from sales of property, rental, and other		3,715	1,333
Purchases of property and equipment and rental and other property		(81,334)	(76,098)
Net cash used in investing activities		(371,575)	(106,411)
Cash flows from financing activities:			
Proceeds from issuance of tax-exempt bonds		321,418	—
Proceeds from line of credit		20,000	—
Repayment of long-term debt		(78,625)	(5,227)
Repayment of line of credit borrowings		(20,000)	—
Payment of deferred financing costs		(2,119)	—
Settlement of interest rate swap		(12,520)	—
Restricted contributions for long-term purposes		1,450	68
Net cash used in financing activities		229,604	(5,159)
Net increase (decrease) in cash and cash equivalents		29,853	(3,269)
Cash and cash equivalents at beginning of year		15,547	18,816
Cash and cash equivalents at end of year	$	45,400	15,547
Supplemental disclosure of noncash transactions:			
Assets obtained in exchange for new finance lease obligations	$	9,519	—
Assets obtained in exchange for new operating lease obligations		17,728	—
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of amounts capitalized	$	10,732	10,588
Change in construction related payables		13,806	(5,803)

See accompanying notes to consolidated financial statements.

(1) Organization, Principles of Consolidation, and Operations

Salem Health Hospitals and Clinics and its subsidiaries (collectively, the Corporation) are Oregon nonprofit corporations providing a comprehensive system of healthcare services to the communities of Salem and Dallas, Oregon, and the surrounding Marion and Polk Counties.

The accompanying consolidated financial statements include the accounts and transactions of the Corporation and its subsidiaries, of which Salem Health Hospitals and Clinics is the parent holding company and sole member. The subsidiaries consist of Salem Health (Salem) and Salem Health West Valley (West Valley) (collectively, the Hospitals); Salem Health Foundation (SHF) and West Valley Hospital Foundation (WVHF) (collectively, the Foundations); Willamette Valley Insurance Corporation (WVIC), a captive insurance company domiciled in Hawaii; and Salem Health Professional Services (SHPS), whose principal purpose is to provide professional billing services to the Hospitals. All significant intercompany accounts and transactions have been eliminated in consolidation. The Corporation has formed an obligated group that is responsible for paying hospital revenue bond debt. Currently, Salem is the only member of the obligated group.

The Hospitals provide healthcare and healthcare-related services to patients in their service areas. The Hospitals' mission is to improve the health and well-being of the people and the communities they serve. The Foundations are dedicated to raising, managing, and distributing funds to help the Hospitals achieve their mission.

COVID-19 Pandemic and CARES Act Funding

In December 2019, a strain of coronavirus (COVID-19) was identified in Wuhan, China, and has spread around the world. The World Health Organization has described the coronavirus outbreak as a "public health emergency of international concern" and on March 11, 2020 declared the outbreak of COVID-19 to be a pandemic. In Oregon, Governor Kate Brown declared a state of emergency on March 8, 2020, to ensure the swift deployment of the personnel and resources necessary to address coronavirus in Oregon. On March 13, 2020, President Trump declared a national public health emergency with respect to the COVID-19 outbreak.

Orders closing schools, limiting gatherings, and closing restaurants preceded the Governor's Executive Order 20-10, effective March 23, 2020. The order's impact included suspending elective surgical procedures which were subsequently reinstated effective May 1, 2020, with certain restrictions in place under Executive Order 20-22. While such measures assisted in responding to the COVID-19 pandemic, they have had an adverse effect on the operations and financial position of health care provider systems, including Salem Health, due to increased costs, reduction in overall patient volume, and shifts in payor mix. While some of these restrictions have been eased as Oregon has lifted moratoriums on non-emergent procedures, some restrictions remain in place, and in certain cases are being re-imposed due to increasing rates of COVID-19 cases. While consolidated patient volumes and revenues experienced gradual improvement beginning in the latter part of April and continuing through the end of the fiscal year, management is unable to predict the future impact of the pandemic on the Corporation's operations.

(Continued)

The Corporation's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. Management has taken precautionary steps to enhance operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to operations, including the following:

- Implemented certain cost reduction initiatives;
- Reduced certain planned projects and capital expenditures; and
- During March 2020, executed a new $100 million line of credit facility (which was undrawn at June 30, 2020) to supplement existing liquidity. The line of credit expires March 2021.

Management believes the extent of the COVID-19 pandemic's adverse impact on operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Corporation's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure. Because of these and other uncertainties, management cannot estimate the length or severity of the impact of the pandemic on the Corporation's business. Decreases in cash flows and results of operations may have an impact on the inputs and assumptions used in significant accounting estimates, including estimated implicit price concessions related to uninsured patient accounts, professional and general liability reserves, and potential impairments of goodwill and long-lived assets.

The Corporation received $17,042 from a $50 billion general distribution fund, and $3,789 of targeted distributions from the CARES Act Provider Relief Fund. In July 2020, the Corporation received an additional $4,500 in targeted Provider Relief Fund distributions that was unrecognized as of June 30, 2020. These distributions from the Provider Relief Fund are not subject to repayment, provided management is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants, and are recognized on a systematic and rational basis as other operating revenues once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on operating results through the end of the fiscal year, the Corporation recognized $17,387 related to these distribution funds, and these payments are recorded under the caption "other revenue" in the consolidated statements of operations. The unrecognized amount of targeted distributions of $3,444 is recorded under the caption "estimated third-party payor settlements, net" in the consolidated balance sheets.

On September 19, 2020, the Department of Health and Human Services (HHS) published its Provider Reporting Guidelines related to Provider Relief Funds. The Guidelines include guidance around the reporting timing and deadlines, disclosure of COVID-19 expenses, and methodology for calculating lost revenues attributable to COVID-19. Under ASC 855, this new guidance is effective on the date of issuance; management is currently evaluating the impact of the new guidance. While the Corporation has not completed the evaluation of the potential impacts, it may impact the timing of accounting recognition of Provider Relief Funds for periods subsequent to June 30, 2020.

Management will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on the Corporation's revenues and expenses. If management is unable to attest to or comply with current or future terms and conditions the Corporation's ability to retain some or all of the distributions received may be impacted.

(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. Actual results could differ from those estimates.

(b) Cash and Cash Equivalents

Cash equivalents include investments in highly liquid instruments with original maturities of three months or less, excluding assets limited as to use. Cash equivalents totaled $1,002 and $655 at June 30, 2020 and 2019, respectively; cash equivalents exclude those balances held as part of the investment portfolio.

The Corporation maintains bank accounts at several financial institutions. The Corporation's bank balances at each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250. At June 30, 2020 and 2019, the Corporation's bank balances at certain financial institutions exceeded FDIC coverage.

(c) Patient Accounts Receivable and Net Patient Service Revenue

Patient accounts receivable are recorded at an estimated collectible amount and do not bear interest. Amounts collected on patient accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. Explicit price concessions are established as a result of negotiated reimbursement methodologies with third party payors.

We also record estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts we expect to collect. The Corporation does not assess credit risk before services are rendered.

During the fourth quarter of fiscal 2020, the Corporation requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. 120 days past receipt of the advance payments (beginning no earlier than August 2020), the Medicare fiscal intermediaries may apply claims for services provided to Medicare beneficiaries against the advance payment balance. Any unapplied advance payment amounts must be paid in full within one year from receipt of the advance payments.

(In thousands)

On October 1, 2020, as part of the enactment of the extension of United States Government funding through December 11, 2020, Congress delayed the beginning of recoupment of the accelerated payments to one year from when the payment was issued. The advance payments are now required to be repaid in full 29 months from the date of the first accelerated payment.

During the fourth quarter of fiscal year 2020, the Corporation received approximately $61,445 from these accelerated Medicare payment requests, and these amounts are recorded under the caption “accrued liabilities – other” in the consolidated balance sheets.

The mix of net patient receivables from significant third-party payors as of June 30, 2020 and 2019 was as follows:

	June 30, 2020	
Medicare	30 %	$ 30,139
Medicaid	12	11,912
Self Pay	2	1,831
Commercial and other payors	56	55,664
Total	100 %	$ 99,546

	June 30, 2019	
Medicare	36 %	$ 36,385
Medicaid	8	7,919
Self Pay	1	1,362
Commercial and other payors	55	55,837
Total	100 %	$ 101,503

The mix of net patient service revenue from significant third-party payors for the years ended June 30, 2020 and 2019 was as follows:

	Year ended June 30, 2020	
Medicare	35 %	$ 278,597
Medicaid	18	143,628
Self Pay	1	6,605
Commercial and other payors	46	374,513
Total	100 %	$ 803,343

(In thousands)

	Year ended June 30, 2019		
Medicare	35 %	$	283,189
Medicaid	18		141,814
Self Pay	1		5,283
Commercial and other payors	46		371,914
Total	100 %	$	802,200

The following tables represent net patient service revenue by line of business in the years ending June 30, 2020 and 2019, respectively:

		Year ended June 30, 2020			
		Inpatient	Outpatient	Clinics	Total
Net patient service revenue	$	425,550	333,812	43,981	803,343

		Year ended June 30, 2019			
		Inpatient	Outpatient	Clinics	Total
Net patient service revenue	$	428,344	337,424	36,432	802,200

Performance obligations for healthcare services provided to patients generally relate to contracts of one year or less. Performance obligations for inpatient services are generally completed at the time the patients are discharged. Performance obligations for outpatient services are generally satisfied over a period of less than a day.

The Corporation elected the practical expedient option allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Services are rendered to patients under contractual arrangements with the Medicare and Medicaid programs and various other payors, including preferred provider organizations (PPOs) and health maintenance organizations (HMOs), which provide for payment or reimbursement at amounts different from established rates. Contractual adjustments represent the difference between established rates for services and amounts reimbursed by these third-party payors.

The Medicare program reimburses Salem at prospectively determined rates for the majority of inpatient and outpatient services rendered to patients, primarily on the basis of Medicare severity diagnosis–related groups and Ambulatory Payment Classification Groups, respectively. West Valley is a "critical access hospital" (CAH) for Medicare and Medicaid program purposes. As a CAH, West Valley may not

(Continued)

operate more than 25 beds and the average length of stay for acute care patients may not exceed 96 hours. The Medicare and Medicaid programs reimburse West Valley on the basis of its current allowable costs. When paid under cost reimbursement, the Hospitals are reimbursed at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the fiscal intermediaries, subjecting the Hospitals to retroactive settlements for prior year cost reports. Actual settlements historically approximated management's expectations.

Salem's cost reports have both been audited and final settled by the Medicare fiscal intermediaries and the Medicaid administrators through June 30, 2016. West Valley's cost reports have both been audited and final settled by the Medicare fiscal intermediaries and the Medicaid administrators through June 30, 2017.

The Hospitals have also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs to provide medical services to subscribing participants. The basis for payment to the Hospitals under these agreements includes prospectively determined rates per discharge, actual charges, and fee schedules.

(d) Supplies Inventory

Supplies inventory is stated at the lower of cost (as determined by the first-in, first-out method) or market.

(e) Investments

Investments consist of investments designated by the Corporation's board of trustees for future capital acquisitions and other purposes, investments held by the Foundations whose use has been restricted by donors, and assets held by a trustee under a bond indenture agreement (notes 5 and 6). Funds held by trustee are set aside in separate trust accounts for future capital projects and debt service reserve funds.

Investments in equity and debt securities are reported at fair value in the accompanying consolidated balance sheets. The fair values are based on quoted market prices at the reporting date for those or similar investments. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on equity investments, interest, and dividends) is included in the excess of revenue over expenses unless the income or loss is restricted by the donor or law. The Corporation's debt investments are classified as other-than-trading securities at June 30, 2020 and 2019. Unrealized gains and losses on other-than-trading debt investments are excluded from excess of revenue over expenses unless they are considered other-than-temporarily impaired.

For each of the investment categories accounted for as other than trading, the Corporation continually monitors investment performance and the potential need for recording an impairment on investments. A number of criteria are considered during this process including, but not limited to, whether the Corporation intends to sell the security, the current fair value as compared to cost of the security, the length of time the security's fair value has been below cost, the likelihood that the Corporation will be required to sell the security before recovery of its cost basis, objective information supporting recovery in a reasonable period of time, specific credit issues related to the issuer, and current economic conditions.

(Continued)

For debt securities that the Corporation does intend to sell or is more likely than not to be required to sell prior to recovery of the cost basis, the Corporation recognizes other-than-temporary losses in accordance with the provisions of the ASC Topic 320 *Investments – Debt and Equity Securities*. The amount of the other-than-temporary loss is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between a security's cost basis and the present value of expected future cash flows discounted at the security's effective interest rate. The amount due to all other factors is recognized in other changes in net assets. For the year ended June 30, 2020 or 2019, the Corporation recognized no other-than-temporary losses.

The Corporation holds investments in corporate bonds, U.S. Treasury and government agency securities, money market funds, and mutual funds. Management believes that the Corporation's credit risk with respect to these investments is minimized due to the diversity of the individual investments and the financial strength of the entities, which have issued the securities or instruments. However, due to changes in economic conditions, interest rates, and common stock prices, the market value of the Corporation's investments can be volatile. Consequently, the fair value of the Corporation's investments could change significantly in the near term as a result of such volatility.

(f) Property and Equipment

Property and equipment (including rental and other property held for future development) are stated at cost. Donated property and equipment are recorded at estimated fair value on the date of donation. Improvements and replacements of property and equipment are capitalized. Routine maintenance and repairs are charged to expense as incurred.

Depreciation is computed using the straight-line method over the shorter of the lease term or estimated useful life of each class of depreciable asset. The estimated useful life of buildings and improvements is 5 to 50 years while the estimated useful life of equipment is 2 to 20 years. Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

(g) Long-Lived Assets

Management reviews property and equipment and other long-term assets for possible impairment whenever events or circumstances indicate the carrying amount of such assets may not be recoverable. If there is an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposal. If these cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value. In addition to consideration of impairment due to the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are revised, the carrying value of affected assets is depreciated or amortized over the remaining lives.

(h) Investments in Health Related Entities

Investments in health related entities are not consolidated. The Corporation would consolidate such investees if it (a) owns a majority of the investee's stock, controls a majority voting interest in the investee's board of directors and has an economic interest in the such investee, or (b) is the sole member of the investee. If these criteria are not met, or if the Corporation owns 50% or less of the voting stock of an investee and can exercise significant influence over the investee's operating and financial policies (generally presumed when the Corporation owns more than 20% of the voting stock), the Corporation accounts for such investments under the equity method of accounting, whereby the Corporation records its proportionate share of the investee's income or loss in the consolidated statements of operations and records distributions received from the investee as a reduction in the related investment balance.

(i) 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 those whose use has been restricted by donors to be maintained in perpetuity.

(j) Consolidated Statements of Operations

Excess of revenue over expenses from operations includes amounts generated from direct patient care, other revenue related to the operation of the Hospitals' facilities, and contributions without donor restrictions received by the Foundations. Other activities that result in income or expenses unrelated to the Hospitals' and the Foundations' primary missions are excluded from excess of revenue over expenses from operations. Other income (loss) includes net investment income, change in unrealized gains and losses on equity investment securities, any other-than-temporary impairment losses on debt investment securities, rental income and expenses related to nonoperating real estate properties, gain (loss) on disposals of property and equipment, loss on extinguishment of debt, and other incidental transactions.

Changes in net assets without donor restrictions that are excluded from the excess of revenue over expenses, consistent with industry practice, include the change in net unrealized gains (losses) on other-than-trading debt securities, change in net benefit obligation related to postretirement benefits, change in fair value of interest rate swap agreement for an effective hedging relationship, and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, are to be used for the purpose of acquiring such assets).

(k) Contributions Received

Unconditional promises to give cash and other assets to the Corporation are recorded as other revenue and other receivables at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift is received or at which point the conditions have been substantially met. Gifts are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When the terms of a donor restriction are met, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and consolidated statements of changes in net assets as net assets released from restrictions.

Contributions of long-lived assets, such as property and equipment, are reported as net assets without donor restrictions and are excluded from the excess of revenue over expenses. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

SHF is a beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently estimable. SHF's share of such bequests is recorded when the probate court has declared the testamentary instrument valid and the proceeds are measurable.

(l) Income Taxes

The Corporation, Salem, West Valley, SHF, WVHF, SHPS, and WVIC are tax-exempt organizations pursuant to Internal Revenue Code Section 501(c) (3). As such, only unrelated business income is subject to federal or state income taxes. The provision for unrelated business income taxes is immaterial to the consolidated financial statements.

Accounting principles generally accepted in the United States of America require the Corporation to evaluate tax positions taken by the Corporation and recognize a tax liability (or an asset) if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the Corporation and has concluded that as of June 30, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Corporation's management believes it is no longer subject to income tax examinations for years prior to fiscal year 2017.

(m) State of Oregon Provider Tax

Effective July 1, 2004, the state of Oregon instituted a provider tax on certain qualifying hospitals. The Corporation recorded provider taxes of $44,878 and $45,250 for the years ended June 30, 2020 and 2019, respectively, which is included in purchased services and other expense in the accompanying consolidated statements of operations. In addition, the Corporation has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments owed to the Corporation related to beneficiaries of the Oregon Department of Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to the Corporation. 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 qualifying hospitals on a quarterly basis. The Corporation received $44,602 and $39,900 for the years ended June 30, 2020 and 2019, respectively, from OAHHS, which is reflected as a component of net patient service revenue in the accompanying consolidated statements of operations.

(n) Reclassifications

Certain prior period amounts in the accompanying consolidated financial statements and notes thereto have been reclassified to conform to current period presentation. These reclassifications had no material effect on the consolidated statements of operations or balance sheets for either period presented.

(o) Recent Accounting Adoptions

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes Topic 840, Leases. ASU No. 2016-02 increases the transparency and comparability of organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This guidance requires that lessees recognize a right-of-use asset and a lease liability measured at the present value of the lease payments in the statement of financial position, recognize a single lease cost allocated over the lease term on a generally straight-line basis, and classify all cash payments within operating activities in the statement of cash flows. The Corporation adopted the new standard on July 1, 2019 using the modified retrospective transition method and prior periods were not recast; this resulted in the recognition of approximately $5,276 of operating lease assets and short-term and long-term operating lease obligations. In adopting and applying this ASU, the Corporation 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 based on the reasonably certain timeframe. Since most of the leases do not provide a rate of return, the Corporation uses its incremental borrowing rate based on information available at the commencement date in determining the present value of lease payments. The standard did not have a material impact on operations or cash flows.

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. The Corporation adopted the new standard on July 1, 2019, and applied the provisions of the standard retrospectively. The 2019 statement of operations includes a reclassification of $40 of net periodic benefit cost from labor and benefits expense to other, net 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. The Corporation adopted the new standard on a retrospective basis on July 1, 2019 and determined there were no material changes to the statement of cash flows.

(In thousands)

(3) Benefits to the Community

The Corporation provides services to the community both for people in need and to enhance the health status of the broader community as part of its charitable mission.

(a) Services for People in Need

The following tables represent the estimated cost of providing certain services to the community, along with a description of selected activities sponsored by the Hospitals during 2020 and 2019:

	Year ended June 30, 2020		
	Estimated costs to provide care	Offsetting revenue	Estimated net cost
Services for people in need:			
Charity care	$ 21,771	—	21,771
Medicaid	195,204	141,611	53,593
Medicare	371,081	295,833	75,248
	$ 588,056	437,444	150,612
Percentage of total operating expenses			18.3 %

	Year ended June 30, 2019		
	Estimated costs to provide care	Offsetting revenue	Estimated net cost
Services for people in need:			
Charity care	$ 20,474	—	20,474
Medicaid	186,212	140,463	45,749
Medicare	362,010	300,114	61,896
	$ 568,696	440,577	128,119
Percentage of total operating expenses			16.1 %

In support of its mission, the Hospitals voluntarily provide medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care are determined based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, the Hospitals provide an uninsured discount of 35% to all uninsured patients. Further discounts are available for patients, on a sliding scale, whose household income is less than 400% of the federal poverty level, or roughly $97 for a family of four in Salem, Oregon. For patients whose household income is at or below 200% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, the patients' qualified assets (e.g., assets and investments excluding patient's primary residence) and other catastrophic or economic circumstances are considered in determining eligibility for charity care.

In addition to charity care, the Hospitals provide services under various states' Medicaid programs for financially needy patients and to Medicare beneficiaries. The aggregate cost of providing services to Medicaid and Medicare beneficiaries exceeds the aggregate reimbursements from these programs.

The cost of services provided to beneficiaries of the Medicaid and Medicare programs and cost of charity care is estimated based on the relationship of costs (excluding the costs associated with medical education, research, community health services, and other contributions) to billed charges for Medicaid and Medicare patient accounts and for patient charges written off as charity deductions.

The Hospitals employ financial counselors and social workers, who assist patients in obtaining coverage for their healthcare needs. This includes assistance with workers compensation, motor vehicle accident policies, Consolidated Omnibus Budget Reconciliation Act (COBRA), veterans' assistance, and public assistance programs, such as Medicaid.

(b) Benefits to Community

Community health services include classes provided to the community at minimal or no cost, health education for children and parents with young families, resource centers, support groups, health screenings, senior wellness, volunteer programs, caregivers respite, and support for parish nursing programs.

Community benefit activities include activities that develop community health programs and partnerships.

Donations to charitable organizations include direct support provided to community organizations through cash or in-kind donations that support organizations' missions of supporting health and human services, civic and community causes, and business development efforts.

In-kind contributions provided by the Corporation include the following: facility space, staff availability for training and education opportunities, supplies, and professional services in collaboration with charitable, educational, and government organizations throughout the community.

(c) Other Benefits

In furtherance of its mission, the Corporation also commits significant time and resources to endeavors and critical services that meet unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include hospice; mental and behavioral health; primary care clinics in underserved neighborhoods; free patient transportation, lodging, meals, and medications for transient patients when needed; participation in blood drives; and the provision of educational opportunities for students interested in pursuing medical-related careers.

(In thousands)

The Corporation also provides additional benefits to the community through the advocacy of community service by employees. Employees of the Corporation serve numerous organizations through board representation, membership in associations, and other related activities.

(4) Liquidity and Availability

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

		2020	2019
Financial assets at year end:			
Cash and cash equivalents	$	45,400	15,547
Patient accounts receivable, less reserves for price concessions		99,546	101,503
Other receivables		16,692	17,150
Investments		1,046,065	740,651
Total financial assets		1,207,703	874,851
Less amounts not availabe to be used within one year:			
Funds held by Trustees		202,532	42
Donor-restricted endowed funds		2,277	2,277
Financial assets not available to be used within one year		204,809	2,319
Financial assets available to meet general expenditures within one year	$	1,002,894	872,532

Donor-restricted funds are available for expenditure upon satisfaction of restrictions, the expected timing of which is not generally determinable in advance.

As part of the Corporation's liquidity management plan, cash reserves no less than 10 days of operating expenses plus known capital expenditures are held in a liquidity pool. As of June 30, 2020 and 2019 the amount was $100,000 and $43,900, respectively.

(In thousands)

(5) Investments

The composition of investments as of June 30, 2020 and 2019 is set forth in the following table. The following breakout indicates management's methodology for managing its investment portfolio. Investments are carried at fair value.

	2020	2019
Internally designated for operating and capital expenditures:		
Cash equivalents	$ 101,402	45,558
Common stocks and equity mutual funds	384,542	363,688
Fixed-income mutual funds	336,808	309,908
Corporate bonds	5,199	4,944
U.S. government agency securities	2,587	2,561
U.S. treasury securities	5,945	7,073
Total internally designated for operating and capital expenditures	836,483	733,732
Held by the Foundations:		
Cash equivalents	142	139
Common stocks and equity mutual funds	4,432	4,163
Fixed-income mutual funds	2,476	2,575
Total held by the Foundations	7,050	6,877
Held by trustee:		
Cash equivalents	202,532	42
Total held by trustee	202,532	42
Total investments	$ 1,046,065	740,651

(In thousands)

Investment income, net, consisted of the following for the fiscal years ended June 30, 2020 and 2019:

		12 months ended June 30,	
		2020	2019
Investment income:			
Interest and dividend income	$	17,375	15,402
Realized gains on sales of investments, net		12,440	17,488
Net unrealized gains on equity investments		8,617	10,627
Investment expenses		(192)	(194)
Investment income, net	$	38,240	43,323
Change in net assets:			
Change in net unrealized gains on investment securities	$	598	473

(6) Fair Value Measurements

(a) Fair Value of Financial Instruments

The carrying amounts for each class of financial instruments noted below are included in the consolidated balance sheets under the indicated captions.

The fair values of the financial instruments, as discussed below at June 30, 2020 and 2019, represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction among market participants at the measurement date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Corporation's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Corporation based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Investments: All equity and debt securities are measured using quoted market prices at the reporting date multiplied by the quantity held when quoted market prices are available. If quoted market prices for those debt securities are not available, the fair value is determined using matrix pricing, which is based on quoted prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the designated security.

Interest rate swap agreement: The carrying value of the interest rate swap agreement is equal to the estimated fair value of the agreement. The fair value of interest rate swap agreement is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and Salem.

(In thousands)

(b) *Fair Value Hierarchy*

FASB ASC Subtopic 820-10, *Fair Value Measurement*, establishes 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) and the lowest priority to measurements involving significant unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

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

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. There was no reclassification of securities between Level 1 and Level 2 during the fiscal year ended June 30, 2020 or 2019. There were no Level 3 securities at June 30, 2020 or 2019.

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2020 (note that as reflected in the interest rate swap footnote, the swap was terminated in October 2019 and is not reflected in the table below):

		Fair value measurements at reporting date using	
	June 30, 2020	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Assets:			
Cash equivalents	$ 304,076	304,076	—
Common stocks and equity mutual funds	388,974	388,974	—
Corporate bonds	5,199	—	5,199
Fixed-income mutual funds	339,284	339,284	—
U.S. government agency securities	2,587	—	2,587
U.S. treasury securities	5,945	5,945	—
Total	$ 1,046,065	1,038,279	7,786

(In thousands)

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2019:

		Fair value measurements at reporting date using	
	June 30, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Assets:			
Cash equivalents	$ 45,738	45,738	—
Common stocks and equity mutual funds	367,852	367,852	—
Corporate bonds	4,944	—	4,944
Fixed-income mutual funds	312,483	312,483	—
U.S. government agency securities	2,561	—	2,561
U.S. treasury securities	7,073	7,073	—
Total	$ 740,651	733,146	7,505
Liability:			
Interest rate swap	$ 11,982	—	11,982

(7) Property and Equipment, Net

Property and equipment consisted of the following at June 30, 2020 and 2019:

	2020	2019
Land and improvements	$ 38,016	43,144
Buildings and improvements	638,536	626,097
Equipment	346,184	312,422
Finance lease right-of-use assets	17,582	—
	1,040,318	981,663
Less accumulated depreciation	(573,901)	(527,165)
	466,417	454,498
Construction in progress	58,965	26,770
Property and equipment, net	$ 525,382	481,268

(In thousands)

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. The Corporation capitalized $3,114 and $0 in the years ending June 30, 2020 and 2019, respectively.

(8) Investments in Health Related Activities

The following is a summary of the Corporation's related-party investments which are included in other noncurrent assets in the accompanying consolidated balance sheets at June 30, 2020 and 2019:

Entity	Basis of accounting	Investment balance included in the accompanying consolidated balance sheets as of June 30, 2020 and 2019 2020	2019	The Corporation's share of income (losses) included in the accompanying consolidated statements of operations for the fiscal years ended June 30, 2020 and 2019 2020	2019
WVCH	Cost method	$ 545	545	$ —	—
SOSC	Equity Method	51	51	—	—
WSC	Equity method	21,038	20,586	2,432	1,369

(a) *Willamette Valley Community Health*

The Corporation, on behalf of the Hospitals, cofounded Willamette Valley Community Health (WVCH) with nine other providers of healthcare in Marion and Polk Counties. WVCH is an Oregon limited liability company and is certified by the Oregon Health Authority as a coordinated care organization (CCO). Section 26 of house bill 3650 provides that CCOs will be responsible for providing fully integrated physical health services, chemical dependency and mental health services, and dental health services. CCOs provide the foregoing health services to Medicaid beneficiaries. The Corporation's investment in WVCH is accounted for under the cost method. WVCH ceased operations as of January 1, 2020 and the entity is being wound down as of June 30, 2020.

(b) *The Salem Ambulatory Surgery Center, LLC*

The Salem Ambulatory Surgery Center, LLC dba Salem Outpatient Surgery Center (SOSC) is a limited liability company whose members are the Corporation and various community physician partners (49.0% ownership interest). Equity is allocated 51.0% and 49.0%, respectively, although voting rights are allocated 44.5% and 55.5%, respectively, to the Corporation and the community physician partners. As a result, the Corporation accounts for the investment under the equity method of accounting. SOSC was formed to own, operate, and manage an outpatient surgery center to be located in Salem, Oregon. As of June 30, 2020 the surgery center is still in the pre-operation phase.

(c) *Willamette Surgery Center, LLC*

Willamette Surgery Center, LLC (WSC) is a limited liability company whose members are the Corporation and community physician partners (45.8% ownership interest). Equity is allocated 54.2% and 45.8%, respectively, although voting rights are allocated 42.9% and 57.1%, respectively, to the

(In thousands)

Corporation and the community physician partners. As a result, the Corporation accounts for the investment under the equity method of accounting. WSC operates and manages an outpatient orthopedic surgery center located in Salem, Oregon. The Corporation made an initial investment of $20,000 in WSC during the year ended June 30, 2019. The Corporation received member distributions of $1,980 and $782 in the years ending June 30, 2020 and 2019, respectively.

(9) Long-Term Debt

Long-term debt consisted of the following at June 30, 2020 and 2019:

		2020	2019
Hospital Revenue Bonds, Series 2008B; payable in installments from $3,575 to $6,000 beginning in 2020 through 2034; interest at rates resetting every seven days; the rate was 1.89% as of June 30, 2019	$	—	75,000
Hospital Revenue Bonds, Series 2016A; payable in installments from $1,915 to $15,490 beginning in 2017 through 2046; interest at rates ranging from 2.00% to 5.00%		181,190	183,105
Hospital Revenue Bonds, Series 2019A; payable in installments from $1,290 to $14,710 beginning in 2020 through 2049; interest at rates ranging from 3.00% to 5.00%		278,190	—
Finance lease liability (a)		9,177	—
Unamortized cost of issuance		(1,476)	(669)
Unamortized premium on bonds, net		53,284	14,862
Other		13	92
		520,378	272,390
Less current portion		(11,595)	(6,346)
	$	508,783	266,044

(a) The interest rate on the lease financing obligation was 1.96% at June 30, 2020. For more information on our lease financing obligations, see Note 13, Leases.

In November 2008, Salem entered into a loan agreement (the November 2008 Agreement) with the Hospital Facility Authority of Salem (the Authority), whereby the Authority issued $75,000 of par amount variable-rate, tax-exempt revenue bonds (the 2008B Bonds) with a final maturity of 2034. The 2008B Bonds bore interest at rates that changed weekly. The bonds were defeased as part of the Series 2019A Bonds issuance and the associated letter of credit was terminated.

(In thousands)

Additionally, in 2008, Salem entered into a cash flow hedge of the 2008B variable rate bonds. The swap agreement maintained the total notional amount of $75,000 and converted the variable interest rate to a fixed rate of approximately 3.541%. See note 10 for further information related to Salem's interest rate management transactions. The swap agreement was terminated as part of the Series 2019A Bonds issuance.

In November 2016, Salem entered into a loan agreement with the authority, whereby the authority issued $197,685 of par amount fixed-rate, tax-exempt revenue refunding bonds (Series 2016A Bonds). The proceeds from Series 2016A were used to refund, redeem and defease various outstanding bond obligations.

In October 2019, Salem entered into a loan agreement with the Authority, whereby the Authority issued $279,480 of par amount fixed-rate, tax-exempt revenue refunding bonds (Series 2019A Bonds). The proceeds from Series 2019A were used to (i) refund, redeem and defease the 2008B Bonds, (ii) terminate and the settle the interest rate swap associated with 2008B Bonds, (iii) finance the construction of a new hospital tower on the Corporation's main campus scheduled for completion in early fiscal year 2023, and (iv) pay fees and expenses related to the Series 2019A Bonds. The 2019A Bonds were issued at a premium in the amount of $41,938.

Scheduled principal repayments of long-term debt are as follows:

	Revenue bonds	Other	Total
2021	$ 7,735	13	7,748
2022	8,100	—	8,100
2023	8,445	—	8,445
2024	8,870	—	8,870
2025	9,310	—	9,310
Thereafter	416,920	—	416,920
	$ 459,380	13	459,393

(10) Derivative Instruments and Hedging Activities

Salem had an interest rate–related derivative instrument to manage its exposure on its debt instruments. The Corporation does not enter into derivative instruments for any purpose other than cash flow hedging purposes. The Corporation followed FASB ASC Subtopic 815-10, *Derivatives and Hedging*. ASC Subtopic 815-10 provides accounting and reporting standards for derivative instruments and hedging activities and requires that Salem recognize these as either assets or liabilities in the consolidated balance sheets and measure them at fair value.

In 2008, Salem entered into an interest rate swap transaction to effectively convert the 2008B variable rate debt to a fixed rate of 3.541% through August 15, 2034. The interest rate swap has a notional amount of $75,000. Salem evaluated the interest rate swap transaction and determined that it met the criteria to be classified as a cash flow hedge and the changes in fair value have been recorded as a change in net assets without donor restrictions in the accompanying consolidated financial statements.

(In thousands)

The fair value of the interest rate swap agreement was determined by or based on the spread in interest rates with consideration of credit risk to both Salem and its counterparty. The estimated fair value of the interest rate swap at June 30, 2019 was a liability of $11,982.

In October 2019, as part of the bonds issuance noted in the long-term debt footnote above, the Corporation settled and terminated the $12,520 interest rate swap liability. Consistent with the guidance of ASC 815 the $8,957 loss previously accumulated and recorded within net assets was reclassified to loss on bond refunding as presented within the statement of operations.

(11) Net Assets With Donor Restrictions

Net assets were restricted for the following purposes at June 30, 2020 and 2019:

		2020	2019
Subject to expenditure for specified purpose:			
Acquisition or construction of property and equipment for the hospitals	$	1,803	354
Specific programs of the hospitals		2,803	2,676
Scholarships		340	535
Other		309	229
		5,255	3,794
Donor-restricted endowed funds:			
Acquisition or construction of property and equipment for the hospitals		1,091	1,091
Specific programs of the hospitals		538	538
Scholarships		357	357
Other		291	291
		2,277	2,277
Total donor restricted net assets	$	7,532	6,071

(12) Retirement and Postretirement Plans

(a) Defined-Contribution Retirement Plan

The Hospitals have a contributory, defined-contribution retirement plan (the Retirement Plan) covering substantially all full-time employees. All eligible employees are allowed to contribute to the Retirement Plan on the first day of the month following their date of hire. The Hospitals contribute 5.5% to 8.5% of participating employees' annual compensation to the Retirement Plan. To receive the benefit of the Hospitals' contributions, employees must have one year or more of service at one of the Hospitals and contribute at least 1.0% of their annual compensation to the Retirement Plan. The Retirement Plan's costs were $21,018 and $19,435 for the fiscal years ended June 30, 2020 and 2019, respectively, and are included in labor and benefits in the accompanying consolidated statements of operations.

(In thousands)

(b) Postretirement Healthcare Plan

The Hospitals also sponsor a postretirement healthcare plan (the Postretirement Plan) that provides healthcare benefits to certain retirees and their dependents until the retirees reach the age of Medicare eligibility. Generally, retirees are eligible to participate in the Postretirement Plan if they retire from one of the Hospitals at age 55 years or older with 10 years of service. Retirees can convert 25% of their unused extended illness bank balance to an equivalent dollar amount, which may then be used to purchase medical, dental, or vision coverage for the retiree and/or dependents. Any unused balance will be forfeited when the retiree reaches the age of Medicare eligibility.

The Corporation accounts for the Postretirement Plan in accordance with FASB ASC Topic 715, *Compensation – Retirement Benefits*, which requires the employer to recognize the overfunded or underfunded status of a plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in net assets without donor restrictions. Under ASC Topic 715 the measurement of the funded status is the difference between the fair value of the plan assets and the benefit obligation of the plan. ASC Topic 715 also requires the Corporation to recognize in net assets without donor restrictions any unrecognized net actuarial gains or losses and any unrecognized prior service costs or credits as they arise and disclose in the notes to the consolidated financial statements additional information about the effect on net periodic benefit cost on the next fiscal year that arises from the delayed recognition of these items.

The accrued liability for postretirement benefits at June 30, 2020 and 2019 was as follows:

		2020	2019
Change in benefit obligation:			
Benefit obligation at beginning of year	$	7,527	5,867
Service cost		30	84
Interest cost		180	199
Participants' contributions		472	472
Actuarial loss (gain)		(414)	1,739
Benefits paid		(1,021)	(834)
Benefit obligation at end of year	$	6,774	7,527
Change in plan assets:			
Fair value of plan assets at beginning of year	$	—	—
The Hospitals' contributions		549	362
Participants' contributions		472	472
Benefits paid		(1,021)	(834)
Fair value of plan assets at end of year	$	—	—

(In thousands)

A reconciliation of the Postretirement Plan's funded status at June 30, 2020 and 2019 and to the Hospitals' accrued postretirement healthcare benefits at June 30, 2020 and 2019 was as follows:

		2020	2019
Funded status	$	6,774	7,527
Current portion of accrued postretirement healthcare benefits		(570)	(549)
Long-term portion of accrued postretirement healthcare benefits	$	6,204	6,978

The current portion of accrued postretirement healthcare benefits is included in accrued liabilities in the accompanying consolidated balance sheets.

The service cost component of the Hospitals' net periodic postretirement benefit cost included in labor and benefits and the other components of the Hospitals' net periodic postretirement benefit cost included in other, net in the accompanying consolidated statements of operations for the fiscal years ended June 30, 2020 and 2019 were as follows:

		12 months ended June 30,	
		2020	2019
Service cost	$	30	84
Interest cost		180	199
Net actuarial (gain) loss recognized		—	(159)
Net periodic postretirement benefit cost	$	210	124

Losses (gains) accumulated in net assets without donor restrictions in the accompanying consolidated statements of changes in net assets through the fiscal years ended June 30, 2020 and 2019 were $223 and $638, respectively. The components of the Hospitals' other changes in plan assets and benefit obligations recognized in net assets without donor restrictions in the accompanying consolidated statements of changes in net assets for the fiscal years ended June 30, 2020 and 2019 were as follows:

		12 months ended June 30,	
		2020	2019
Net (gain) loss	$	(414)	1,739
Amortization of net loss		—	159
Total recognized in net assets without donor restrictions	$	(414)	1,898

(In thousands)

Weighted average assumptions used to determine benefit obligations for June 30, 2020 and 2019 were as follows:

	2020	2019
Discount rate	1.11 %	2.48 %
Rate of compensation increase	3.75	3.75

For actuarial measurement purposes, annual rate increases in the per capita cost of covered healthcare benefits of 7.00% (pre-65) and 6.00% (post-65) were assumed for 2020 through 2021. Thereafter, the rate was assumed to decrease by approximately 0.50% percentage point on an annual basis to 5.18% in 2030 and then decrease gradually to 4.04%. For the fiscal year ended June 30, 2020, the Corporation utilized the RP-2014 Mortality Table with the RP-2019 Mortality Improvement Scale for estimating the actuarial values. For the fiscal year ended June 30, 2019, the Corporation utilized the RP-2014 Mortality Table with the RP-2018 Mortality Improvement Scale for estimating the actuarial values.

Benefit payments funded by Salem that reflect future service, as appropriate, are expected to be paid as follows for the future fiscal years ending June 30:

2021	$	571
2022		718
2023		802
2024		824
2025		881
2026–2030		3,218

These estimates are based on assumptions about future events. Actual benefit payments may vary significantly from these estimates.

(In thousands)

(13) Leases

The Corporation leases medical and administrative office buildings and equipment to support operations and adopted ASC 842, "*Leases*", as amended, as of July 1, 2019, using the modified retrospective transition method resulting in the recognition of approximately $5,276 of operating lease assets and short-term and long-term operating lease obligations. The operating and finance leases are reflected within the consolidated balance sheets as follows at June 30, 2020:

		June 30, 2020		
		Operating Leases	Finance Leases	Total
Assets:				
Rental and other property, net	$	14,632	—	14,632
Property and equipment, net		—	16,672	16,672
Total leased assets	$	14,632	16,672	31,304
Liabilities:				
Lease liabilities due within one year:				
Accrued liabilities other	$	4,276	—	4,276
Current portion of long-term debt		—	868	868
Long-term lease liabilities:				
Other long-term liabilities		10,803	—	10,803
Long-term debt, net of current portion		—	8,309	8,309
Total lease liabilities	$	15,079	9,177	24,256

The weighted average remaining terms of operating and financing leases were 4 and 9 years, respectively. The weighted average discount rates on operating and financing leases were 2.19% and 1.96%, respectively.

(In thousands)

The Corporation incurred lease expenses for the year ended June 30, 2020 as follows:

		2020
Finance lease expense included in depreciation and amortization:		
Amortization of ROU assets	$	909
Finance lease expense included in interest:		
Interest on lease liabilities		92
Total finance lease expense	$	1,001
Operating lease expense included in purchased services and other	$	3,353
Operating lease expense included in other, net		395
Short-term lease expense included in purchased services and other		1,164
Short-term lease expense included in other, net		114
Total operating lease expense	$	5,026

The finance and operating leases liabilities will mature as follows:

		Finance Leases	Operating Leases	Total Leases
2021	$	868	4,276	5,144
2022		885	3,795	4,680
2023		903	2,459	3,362
2024		921	1,604	2,525
2025		1,026	1,235	2,261
Thereafter		4,574	1,710	6,284
	$	9,177	15,079	24,256

(In thousands)

Rental Income related to leases where the Corporation is the lessor was $714 and $655 for the years ended June 30, 2020 and 2019, respectively. The Corporation anticipates operating lease receipts to mature as follows:

		Operating Leases
2021	$	497
2022		142
2023		30
2024		—
2025		—
Thereafter		—
	$	669

Relevant leasing information for the year end June 30, 2019, which applied the accounting requirements of ASC 840, *Leases* is as follows:

The Corporation recorded lease expense of $2,883, which is included in purchased services and other, net in the consolidated statements of operations for the fiscal year ended June 30, 2019.

As of June 30, 2019, future minimum payments required under the Corporation's operating leases were as follows:

2020	$	1,975
2021		1,906
2022		1,298
2023		603
2024		5
Thereafter		49
	$	5,836

(In thousands)

(14) Functional Classification of Expenses

The Corporation allocates expenses by function on a department basis based on their functional role. Departments supporting the entire corporation in a support services function are classified as management and general; departments providing hospital based services and clinics providing ambulatory services are categorized accordingly. Foundation expenses consist of both the hospital foundations and the support services associated with operating those foundations incurred by other Salem entities. Expenses on a functional basis for the fiscal years ended June 30, 2020 and 2019 were as follows:

	2020				
	Hospital	Clinics	Foundation	General and Administrative	Total
Labor and benefits	$ 309,077	93,772	176	98,076	501,101
Medical and other supplies	109,087	2,622	110	5,602	117,421
Purchased services and other	65,282	17,804	1,715	34,374	119,175
Depreciation	30,298	1,945	112	17,316	49,671
Professional fees	11,677	2,598	62	8,352	22,689
Interest and amortization	12,066	—	—	—	12,066
Total	$ 537,487	118,741	2,175	163,720	822,123

	2019				
	Hospital	Clinics	Foundation	General and Administrative	Total
Labor and benefits	$ 313,179	69,220	213	81,611	464,223
Medical and other supplies	109,615	2,602	204	5,310	117,731
Purchased services and other	64,354	25,708	2,315	39,178	131,555
Depreciation	28,706	1,842	106	16,231	46,885
Professional fees	14,178	4,059	96	8,911	27,244
Interest and amortization	10,565	—	—	—	10,565
Total	$ 540,597	103,431	2,934	151,241	798,203

(15) Commitments and Contingencies

(a) General and Professional Liability Insurance

On a claims-made basis, WVIC provides excess insurance coverage up to a $1,000 self-insured retention limit per occurrence and $6,000 annual aggregate limit for healthcare professional liability ($1,000/$6,000 limits) for Salem and West Valley for the years ending June 30, 2020 and 2019. In excess of the $1,000/$6,000 limits, the Hospitals annually purchase reinsurance coverage for claims up to $34,000 in aggregate on a claims-made basis. Reinsurance contracts do not relieve the Corporation from its obligations to claimants. Failure of reinsurers to honor their obligations could result in losses to the Corporation. The Corporation evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurer to manage its exposure to significant losses from reinsurer insolvencies.

General and professional liability costs are accrued based upon an actuarial determination with estimated incurred-but-not-reported professional liability losses recorded at the expected, undiscounted level. The Corporation has recorded estimated liabilities for incurred-but-not-reported professional liability claims and for deductibles on reported claims aggregating $7,772 and $7,915 as of June 30, 2020 and 2019, respectively. The estimated liabilities for incurred-but-not-reported medical claims are recorded on the Hospitals' books. WVIC carries the estimated liabilities for deductibles on reported claims. Management believes that these estimated liabilities are adequate; however, the establishment of estimated liabilities for incurred-but-not-reported medical malpractice claims and for deductibles on reported claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact operations in future periods.

The Corporation records claim liabilities without consideration of insurance recoveries and receivables for insurance recoveries to be reported separately subject to a valuation allowance as appropriate. The Corporation recorded an asset for insurance recoveries receivable and estimated liabilities in the amount of $2,292 and $2,056 as of June 30, 2020 and 2019, respectively. The insurance recovery receivable and insured claims liability are included in other noncurrent assets and estimated medical malpractice claims liability in the accompanying consolidated balance sheets. No valuation allowance was recorded related to reinsurance receivables as of June 30, 2020 and 2019.

(b) Self-Insured Employee Benefits

The Corporation is self-insured for employee's medical and dental claims. Claims are accrued as incurred. The Corporation has recorded an accrual for the estimated claims, including estimates of the ultimate costs for both reported claims and claims incurred but not reported of $3,932 and $3,988 as of June 30, 2020 and 2019, respectively. Management believes that these amounts, which have been included within other accrued liabilities in the accompanying consolidated balance sheets, are adequate to cover estimated employee's medical and dental claims.

(c) Risk Management

In the ordinary course of business, the Corporation 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. 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 fiscal year ended June 30, 2020 or 2019. The Corporation is self-insured for workers' compensation claims. The Corporation has recorded estimated liabilities for claims in the amount of $2,349 and $2,256 as of June 30, 2020 and 2019, respectively, which have been included in "other accrued liabilities" in the accompanying balance sheet.

(Continued)

(d) Regulation and Litigation

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 and have become more complicated in recent years due to changes resulting from the health reform law and the introduction of health benefit exchanges and coordinated care organizations into the local marketplace. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by healthcare providers. These types of investigations may result in settlements involving fines and penalties, as well as repayment of improper reimbursement. The Corporation has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of significant instances of noncompliance.

(16) Lean Initiatives (Unaudited)

The lean management system (Lean) was initially introduced to the Corporation in 2010 to improve the quality of care and transform their culture. The purpose of Lean is to create value for the patient through its three main components: continuous improvement, elimination of waste and variation, and respect for people. Using Lean, the Corporation aligns its strategies to their daily work: engaging its providers and employees to become problem solvers and continually ask the question "why," ensuring all employees work together toward the same outcomes, and keeping the Corporation strong and effective.

In fiscal years 2020 and 2019, the Corporation had a strategic goal to engage frontline staff in leading and completing a Lean activity to remove waste from the system, creating improved value for their patients.

	12 months ended June 30,	
	2020	**2019**
	(not in thousands)	
% of front line staff leading and completing a Lean activity	88 %	77 %
Total Lean activities completed	6,212	6,346

The Corporation continues to invest increasing efforts in Lean to create value for their patients by increasing access to care, improving patient experience, and delivering quality care at a lower cost.

(17) Subsequent Events

The Corporation evaluated subsequent events after the consolidated balance sheet date of June 30, 2020 through October 2, 2020 which was the date the consolidated financial statements were issued.

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Schedule of Balance Sheet Information

June 30, 2020

(In thousands)

	Salem Health	Salem Hospital Foundation	Salem Health West Valley	West Valley Hospital Foundation	Parent holding company	Willamette Valley Insurance Corporation	Eliminations	Consolidated
Current assets:								
Cash and cash equivalents	$ 38,778	2,602	2,807	145	129	939	—	45,400
Patient accounts receivable, net	95,125	—	4,421	—	—	—	—	99,546
Intercompany and other receivables	16,586	25	19,625	2	3,064	—	(22,610)	16,692
Supplies inventory	8,359	—	515	—	—	—	—	8,874
Prepaid expense and other	9,882	—	146	—	—	—	—	10,028
Total current assets	168,730	2,627	27,514	147	3,193	939	(22,610)	180,540
Due from Salem Health West Valley, net	—	—	—	—	550	—	(550)	—
Due from parent holding company	545	—	—	—	—	—	(545)	—
Investments	1,017,050	6,949	—	101	—	21,965	—	1,046,065
Property and equipment, net	511,564	—	12,901	—	917	—	—	525,382
Rental and other property held for future development, net	51,401	692	228	—	—	—	—	52,321
Investments in health related entities	38,252	—	—	—	545	—	(17,162)	21,635
Other noncurrent assets	20,483	—	344	—	—	—	(4,515)	16,312
Total assets	$ 1,808,025	10,268	40,987	248	5,205	22,904	(45,382)	1,842,255

(Continued)

Schedule 1

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Schedule of Balance Sheet Information

June 30, 2020

(In thousands)

	Salem Health	Salem Hospital Foundation	Salem Health West Valley	West Valley Hospital Foundation	Parent holding company	Willamette Valley Insurance Corporation	Eliminations	Consolidated
Current liabilities:								
Accounts and intercompany payable	$ 72,785	345	1,817	15	545	65	(23,753)	51,819
Accrued liabilities:								
Payroll, payroll taxes, and withholdings	21,258	—	473	—	—	—	—	21,731
Paid time off	22,328	—	913	—	—	—	—	23,241
Other	71,897	—	4,236	—	—	—	—	76,133
Estimated third-party payor settlements, net	1,555	—	4,270	—	—	—	—	5,825
Current portion of long-term debt	11,595	—	—	—	—	—	—	11,595
Current portion of estimated medical malpractice claims liability	1,717	—	58	—	—	—	—	1,775
Total current liabilities	203,135	345	11,767	15	545	65	(23,753)	192,119
Long-term debt, net of current portion	508,783	—	—	—	—	—	—	508,783
Accrued postretirement healthcare benefits	5,916	—	288	—	—	—	—	6,204
Other long-term liabilities	10,812	—	148	—	—	—	—	10,960
Estimated medical malpractice claims liability	2,526	—	86	—	—	5,677	—	8,289
Total liabilities	731,172	345	12,289	15	545	5,742	(23,753)	726,355
Net assets:								
Without donor restrictions	1,072,386	2,466	28,650	158	4,660	17,162	(17,114)	1,108,368
With donor restrictions	4,467	7,457	48	75			(4,515)	7,532
Total net assets	1,076,853	9,923	28,698	233	4,660	17,162	(21,629)	1,115,900
Total liabilities and net assets	$ 1,808,025	10,268	40,987	248	5,205	22,904	(45,382)	1,842,255

See accompanying independent auditors' report.

Schedule 2

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Schedule of Operations Information

Fiscal year ended June 30, 2020

(In thousands)

	Salem Health	Salem Hospital Foundation	Salem Health West Valley	West Valley Hospital Foundation	Parent holding company	Willamette Valley Insurance Corporation	Eliminations	Consolidated
Operating revenue:								
Net patient service revenue	$ 767,322	—	36,021	—	—	—	—	803,343
Other revenue	61,902	1,007	1,004	69	—	1,106	(4,289)	60,799
Net assets released from restriction used for operations	—	387	—	(34)	—	—	—	353
Total operating revenue	829,224	1,394	37,025	35	—	1,106	(4,289)	864,495
Operating expenses:								
Labor and benefits	482,949	—	18,152	—	—	—	—	501,101
Medical and other supplies	114,225	33	3,208	—	—	—	(45)	117,421
Purchased services and other	114,687	1,472	6,455	126	—	1,015	(4,580)	119,175
Depreciation	48,226	—	1,445	—	—	—	—	49,671
Professional fees	21,194	—	1,424	—	—	71	—	22,689
Interest and amortization	12,066	—	—	—	—	—	—	12,066
Total operating expenses	793,347	1,505	30,684	126	—	1,086	(4,625)	822,123
Operating income (loss)	35,877	(111)	6,341	(91)	—	20	336	42,372
Other income (expense):								
Investment income, net	37,370	178	—	5	1	686	—	38,240
Loss on bond refunding	(8,660)	—	—	—	—	—	—	(8,660)
Loss on disposal of property and equipment	(1,456)	—	—	—	—	—	—	(1,456)
Other, net	(3,371)	—	—	—	102	—	(1,303)	(4,572)
Total other income, net	23,883	178	—	5	103	686	(1,303)	23,552
Excess (deficit) of revenue over expenses	59,760	67	6,341	(86)	103	706	(967)	65,924
Change in fair value of interest rate swap agreement	(837)	—	—	—	—	—	—	(837)
Reclassification of interest rate swap upon termination	8,957	—	—	—	—	—	—	8,957
Change in net unrealized gain or loss on fixed income investments	—	—	—	—	—	598	—	598
Change in postretirement benefit obligation	369	—	45	—	—	—	—	414
Net assets released from restriction used for property and equipment	—	17	—	—	—	—	—	17
Change in net assets without donor restrictions	$ 68,249	84	6,386	(86)	103	1,304	(967)	75,073

See accompanying independent auditors' report.

Schedule 3

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Schedule of Balance Sheet Information

June 30, 2019

(In thousands)

	Salem Health	Salem Hospital Foundation	Salem Health West Valley	West Valley Hospital Foundation	Parent holding company	Willamette Valley Insurance Corporation	Eliminations	Consolidated
Current assets:								
Cash and cash equivalents	$ 13,009	1,151	484	171	129	603	—	15,547
Patient accounts receivable, net	96,728	—	4,775	—	—	—	—	101,503
Intercompany and other receivables	17,087	23	6,234	2	2,962	—	(9,158)	17,150
Supplies inventory	7,525	—	649	—	—	—	—	8,174
Prepaid expense and other	8,791	—	151	—	—	—	—	8,942
Total current assets	143,140	1,174	12,293	173	3,091	603	(9,158)	151,316
Due from Salem Health West Valley, net	—	—	—	—	550	—	(550)	—
Due from parent holding company	545	—	—	—	—	—	(545)	—
Investments	712,717	6,779	—	98	—	21,057	—	740,651
Property and equipment, net	466,104	—	14,247	—	917	—	—	481,268
Rental and other property held for future development, net	31,358	692	—	—	—	—	—	32,050
Investments in health related entities	36,496	—	—	—	—	—	(15,859)	20,637
Other noncurrent assets	8,204	—	375	—	546	—	(3,078)	6,047
Total assets	$ 1,398,564	8,645	26,915	271	5,104	21,660	(29,190)	1,431,969

(Continued)

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Schedule of Balance Sheet Information

June 30, 2019

(In thousands)

	Salem Health	Salem Hospital Foundation	Salem Health West Valley	West Valley Hospital Foundation	Parent holding company	Willamette Valley Insurance Corporation	Eliminations	Consolidated
Current liabilities:								
Accounts and intercompany payable	$ 48,250	202	1,934	17	545	139	(10,250)	40,837
Accrued liabilities:								
Payroll, payroll taxes, and withholdings	13,577	—	498	—	—	—	—	14,075
Paid time off	19,917	—	810	—	—	—	—	20,727
Other	12,228	—	278	—	—	—	—	12,506
Estimated third-party payor settlements, net	2,397	—	607	—	—	—	—	3,004
Current portion of long-term debt	6,346	—	—	—	—	—	—	6,346
Current portion of estimated medical malpractice claims liability	1,724	—	35	—	—	—	—	1,759
Total current liabilities	104,439	202	4,162	17	545	139	(10,250)	99,254
Long-term debt, net of current portion	266,044	—	—	—	—	—	—	266,044
Accrued postretirement healthcare benefits	6,631	—	347	—	—	—	—	6,978
Fair value of interest rate swap agreement	11,982	—	—	—	—	—	—	11,982
Other long-term liabilities	126	—	7	—	—	—	—	133
Estimated medical malpractice claims liability	2,435	—	115	—	—	5,662	—	8,212
Total liabilities	391,657	202	4,631	17	545	5,801	(10,250)	392,603
Net assets:								
Without donor restrictions	1,003,875	2,381	22,236	244	4,559	15,859	(15,859)	1,033,295
With donor restrictions	3,032	6,062	48	10	—	—	(3,081)	6,071
Total net assets	1,006,907	8,443	22,284	254	4,559	15,859	(18,940)	1,039,366
Total liabilities and net assets	$ 1,398,564	8,645	26,915	271	5,104	21,660	(29,190)	1,431,969

See accompanying independent auditors' report.

Schedule 4

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Schedule of Operations Information

Fiscal year ended June 30, 2019

(In thousands)

	Salem Health	Salem Hospital Foundation	Salem Health West Valley	West Valley Hospital Foundation	Parent holding company	Willamette Valley Insurance Corporation	Eliminations	Consolidated
Operating revenue:								
Net patient service revenue	$ 771,840	—	30,360	—	—	—	—	802,200
Other revenue	48,249	455	537	49	—	1,586	(4,226)	46,650
Net assets released from restriction used for operations	—	511	—	42	—	—	—	553
Total operating revenue	820,089	966	30,897	91	—	1,586	(4,226)	849,403
Operating expenses:								
Labor and benefits	447,391	—	16,832	—	—	—	—	464,223
Medical and other supplies	114,796	9	3,026	1	—	—	(101)	117,731
Purchased services and other	126,749	1,457	6,093	157	—	1,292	(4,193)	131,555
Depreciation	45,469	—	1,416	—	—	—	—	46,885
Professional fees	25,608	—	1,566	—	—	70	—	27,244
Interest and amortization	10,565	—	—	—	—	—	—	10,565
Total operating expenses	770,578	1,466	28,933	158	—	1,362	(4,294)	798,203
Operating income (loss)	49,511	(500)	1,964	(67)	—	224	68	51,200
Other income (expense):								
Investment income, net	42,478	174	—	6	1	664	—	43,323
Loss on disposal of property and equipment	(783)	—	(4)	—	—	—	—	(787)
Other, net	(353)	—	—	—	102	—	(1,361)	(1,612)
Total other income (expense), net	41,342	174	(4)	6	103	664	(1,361)	40,924
Excess (deficit) of revenue over expenses	90,853	(326)	1,960	(61)	103	888	(1,293)	92,124
Change in fair value of interest rate swap agreement	(2,823)	—	—	—	—	—	—	(2,823)
Change in net unrealized gain or loss on fixed income investments	—	—	—	—	—	473	—	473
Change in postretirement benefit obligation	(1,798)	—	(100)	—	—	—	—	(1,898)
Net assets released from restriction used for property and equipment	—	68	—	—	—	—	—	68
Change in net assets without donor restrictions	$ 86,232	(258)	1,860	(61)	103	1,361	(1,293)	87,944

See accompanying independent auditors' report.