



ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Schedules

September 30, 2021 and 2020

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Directors
Asante Health System and subsidiaries:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Asante Health System and its subsidiaries, which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Asante Health System and its subsidiaries as of September 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included on pages 35 to 37 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 related directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

KPMG LLP

Portland, Oregon
December 9, 2021

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2021 and 2020

(In thousands)

Assets	2021	2020
Current assets:		
Cash and cash equivalents	\$ 123,440	177,267
Assets whose use is limited, current portion	8,750	15,324
Patient accounts receivable, net	151,738	114,608
Accrued interest and other receivables	25,784	20,684
Inventories	16,209	17,852
Prepaid expenses	17,694	14,369
Total current assets	<u>343,615</u>	<u>360,104</u>
Assets whose use is limited:		
Restricted by donors	28,477	20,197
Beneficial interest in Ashland Community Hospital Foundation	778	5,293
Assets restricted under bond indenture	198,120	300,527
Board and other designated assets	45,337	27,528
	<u>272,712</u>	<u>353,545</u>
Less amount required to meet current obligations	<u>8,750</u>	<u>15,324</u>
	263,962	338,221
Marketable securities	800,004	691,954
Property, plant, and equipment, net	519,389	379,318
Land held for future use	10,809	10,809
Other assets, net	12,114	16,747
Total assets	<u>\$ 1,949,893</u>	<u>1,797,153</u>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2021 and 2020

(In thousands)

Liabilities and Net Assets	2021	2020
Current liabilities:		
Accounts payable	\$ 37,868	26,440
Payroll, payroll taxes, and related benefits	58,915	53,783
Self-insurance liability, current portion	10,547	10,696
Estimated reimbursement due to government agencies, net	7,376	6,549
Other current liabilities	54,428	41,405
Medicare accelerated and advance payment	51,772	73,031
Current portion of long-term debt and finance lease obligations	8,750	15,348
Total current liabilities	229,656	227,252
Long-term debt and finance lease obligations, net of current portion and unamortized bond cost	543,972	555,919
Pension benefit obligation	7,499	15,844
Other long-term liabilities	36,543	29,857
Total liabilities	817,670	828,872
Net assets:		
Without donor restrictions	1,102,962	942,783
With donor restrictions	29,261	25,498
Total net assets	1,132,223	968,281
Total liabilities and net assets	\$ 1,949,893	1,797,153

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended September 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Revenue and other support:		
Net patient service revenue	\$ 1,050,381	940,534
Other operating revenue	47,221	57,956
Total revenue and other support	<u>1,097,602</u>	<u>998,490</u>
Operating expenses:		
Salaries and benefits	624,077	559,638
Supplies	207,803	191,664
Purchased services	84,206	71,164
Professional fees	21,830	16,481
Repairs and maintenance	11,614	11,924
Insurance	3,845	2,230
Rent and utilities	12,712	11,614
Interest and amortization	5,976	9,246
Depreciation	43,593	49,241
Provider tax expense	56,013	47,291
Other	7,117	8,551
Total operating expenses	<u>1,078,786</u>	<u>979,044</u>
Operating income	<u>18,816</u>	<u>19,446</u>
Nonoperating income (loss):		
Investment income, net of fees	74,994	26,544
Change in unrealized gains and losses on trading investments	59,826	6,951
Other, net	4,217	(4,866)
Loss on extinguishment of debt	—	(5,432)
Total nonoperating income	<u>139,037</u>	<u>23,197</u>
Excess of revenue over expenses, carried forward	\$ <u>157,853</u>	<u>42,643</u>

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Assets without donor restrictions:		
Excess of revenue over expenses, carried forward	\$ 157,853	42,643
Net assets released from restrictions used for purchases of property, plant, and equipment	<u>2,326</u>	<u>264</u>
Increase in net assets without restrictions	<u>160,179</u>	<u>42,907</u>
Assets with donor restrictions:		
Contributions and investment income	11,965	9,035
Net assets released from restrictions	<u>(8,202)</u>	<u>(2,111)</u>
Increase in net assets with restrictions	<u>3,763</u>	<u>6,924</u>
Increase in net assets	163,942	49,831
Net assets, beginning of year	<u>968,281</u>	<u>918,450</u>
Net assets, end of year	<u>\$ 1,132,223</u>	<u>968,281</u>

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2021 and 2020

(In thousands)

	2021	2020
Cash flows from operating activities:		
Increase in net assets	\$ 163,942	49,831
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	42,173	48,263
Gain on property, plant, and equipment	418	(3,158)
Loss on extinguishment of debt	—	5,432
Realized and net change in unrealized gains and losses on marketable securities	(133,540)	(14,380)
Earnings of healthcare joint ventures	(1,693)	(1,730)
Change in interest in ACH Foundation	4,515	(3,827)
Distributions from investments in healthcare ventures	1,790	1,077
Restricted contributions	(287)	(896)
Change in operating assets and liabilities:		
Operating assets	(39,377)	1,937
Operating liabilities	(18,189)	94,445
Net cash provided by operating activities	19,752	176,994
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(160,116)	(77,014)
Sales of marketable securities and assets whose use is limited	294,962	335,074
Purchases of marketable securities and assets whose use is limited	(193,154)	(661,085)
Net cash used in investing activities	(58,308)	(403,025)
Cash flows from financing activities:		
Principal payments on long-term debt and capital lease obligations	(15,558)	(210,169)
Bond issue costs paid	—	(3,146)
Proceeds from long-term debt	—	544,572
Restricted Contributions	287	896
Net cash (used in) provided by financing activities	(15,271)	332,153
Net (decrease) increase in cash and cash equivalents	(53,827)	106,122
Cash and cash equivalents, beginning of year	177,267	71,145
Cash and cash equivalents, end of year	\$ 123,440	177,267
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 10,285	9,982
Change in capital purchases in accounts payable	8,604	6,967
Assets obtained in exchange for new operating lease obligations	16,929	—

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

(1) Organization

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

Asante Corporate (Parent Company)

Corporate is a system-wide administrative function supporting Asante's integrated delivery system and is part of the Asante Obligated Group.

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

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

(i) Asante Rogue Regional Medical Center (ARRMC)

ARRMC is a regional referral healthcare facility located in Medford, Oregon providing for the healthcare needs of southern Oregon and northern California.

(ii) Asante Three Rivers Medical Center (ATRMC)

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

(iii) Asante Ashland Community Hospital (AACH)

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

(b) Other Affiliates

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

(i) Asante Physician Partners (APP)

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

(ii) Asante Foundation (the Foundation)

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

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

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

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

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

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

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid financial instruments with original maturities of three months or less when purchased. Cash equivalent balances included in cash and cash equivalents in the consolidated balance sheets at September 30, 2021 and 2020 are \$7,613,000 and \$7,424,000, respectively. Cash equivalents exclude those balances held as a portion of assets whose use is limited or marketable securities.

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

(d) Patient Accounts Receivable

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

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Notes to Consolidated Financial Statements

September 30, 2021 and 2020

accounts receivable, historical collection experience by payor, and other relevant factors. The mix of net receivables based on significant third-party payor classifications is as follows:

	September 30	
	2021	2020
Medicare	28 %	34 %
Medicaid	15	14
Private pay	1	1
Commercial	48	45
Others	8	6
	100 %	100 %

(e) Inventories

Inventories of supplies are valued on weighted average cost.

(f) Assets Whose Use is Limited

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

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

(g) Marketable Securities

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

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September 30, 2021 and 2020

(h) Property, Plant, and Equipment

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

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

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

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

Asante assesses potential impairment to its long-lived assets, including land held for future use, when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. No impairment losses have been identified as of September 30, 2021 and 2020.

(i) Financing Costs

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

(j) Investments in Healthcare Ventures

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

(k) Self-Insurance

(i) Workers' Compensation

The annual self-insured retention under Asante's workers' compensation program is \$750,000 over the life of an individual claim. Asante carries an excess coverage policy for its workers' compensation program. The accrued liability for the self-insured components of the plan includes the unpaid portion of claims that have been reported and estimates for claims that have been

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

incurred but not reported. The actuarially determined total estimated gross liability at September 30, 2021 is \$6,744,000, with \$2,117,000 of this amount insured estimated to be covered by coverage provided by excess carriers. The actuarially determined total estimated gross liability at September 30, 2020 is \$8,078,000, with \$2,425,000 of this amount insured estimated to be covered by coverage provided by excess carriers. The current portion of the accrued liability for workers' compensation is included in self-insurance liability. The long-term portion of the accrued liability is included in other long-term liabilities. The above policy limits and liabilities relate to workers compensation claims prior to September 30, 2020. Effective October 1, 2020 Asante was insured under a worker's compensation plan. No new self-insurance claims were expected to be incurred after September 30. The above policy limits and liabilities relate to workers compensation claims prior to September 30, 2020.

(ii) *Medical*

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

The actuarially determined estimated liability for Asante is \$5,236,000 and \$4,965,000 at September 30, 2021 and 2020, respectively, and is included in self-insurance liability.

(iii) *Professional Liability*

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

The total expected value of the undiscounted estimated gross liability for Asante at September 30, 2021 is \$18,323,000 with \$2,795,000 of this amount estimated to be covered by excess carriers. The total expected value of the undiscounted estimated gross liability for Asante at September 30, 2020 is \$24,672,000 with \$7,810,000 of this amount estimated to be covered by excess carriers. The current portion of the liability is recorded in self-insurance liability. The long-term portion is included in other long-term liabilities. The receivable for insurance recoveries is included in other assets.

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

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Notes to Consolidated Financial Statements

September 30, 2021 and 2020

(l) Oregon State Provider Tax

The State of Oregon operates a provider tax program related to certain patient service revenue at certain qualifying hospitals. Asante recorded provider tax expenses of approximately \$56,013,000 and \$47,291,000 for the years ended September 30, 2021 and 2020, respectively. Asante recorded provider tax liabilities of \$13,788,000 and \$11,798,000 at September 30, 2021 and 2020, respectively, which are included in other current liabilities in the accompanying consolidated balance sheets. In addition, Asante has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments to Asante related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to Asante. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to the qualifying hospitals. The amounts received or receivable from OAHHS for the years ended September 30, 2021 and 2020 are \$56,013,000 and \$47,291,000, respectively, which are reflected as a component of net patient service revenue in the accompanying consolidated statements of operations. Asante recorded receivables of \$13,745,000 and \$11,760,000 at September 30, 2021 and 2020, respectively, which are included in other receivables in the accompanying consolidated balance sheets.

(m) Net Assets

(i) Assets without Donor Restrictions

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

(ii) Assets with Donor Restrictions

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

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

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Notes to Consolidated Financial Statements

September 30, 2021 and 2020

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

	<u>2021</u>	<u>2020</u>
Capital	\$ 11,297	6,427
Womens, children and infant health	3,759	3,127
Restricted for specific purpose at AACH	778	5,293
Others	<u>13,427</u>	<u>10,651</u>
Total net assets with donor restrictions	\$ <u>29,261</u>	<u>25,498</u>

(n) Net Patient Service Revenue

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

(o) Other Operating Revenue

Other operating revenue includes revenue from nonpatient care services, clinical revenue, miscellaneous revenue, COVID-19 grant funds and Provider Relief Funds.

(p) Charity Care

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

(q) Nonoperating Income

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

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Notes to Consolidated Financial Statements

September 30, 2021 and 2020

(r) Net Contributions from the Foundation

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

	<u>2021</u>	<u>2020</u>
Other revenue	\$ 6,209	2,273
Unrestricted revenue	6,209	2,273
Salaries and benefits	1,784	1,378
Supplies	276	286
Purchased services	1,181	526
Rent and utilities	29	33
Other	3,702	1,723
Total expenses	6,972	3,946
Loss prior to investment income	(763)	(1,673)
Net unrealized gains on trading investments	2,946	1,213
Excess (Deficit) of revenue over expenses	\$ 2,183	(460)

(s) Excess of Revenue over Expenses

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

(t) Federal and State Income Taxes

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Asante and recognize a tax liability (or asset) if Asante has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by Asante and has concluded that as of September 30, 2021, there are no uncertain positions taken, or expected to be taken, that would require recognition of a liability (or an asset) or disclosure in the consolidated financial statements. Asante is subject to routine audits by taxing jurisdictions; however, no such audits are currently in process.

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September 30, 2021 and 2020

(u) Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes Topic 840, Leases. Topic 842 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 lease arrangements longer than 12 months result in an entity recognizing a right-of-use (ROU) asset and a lease liability. The asset and liability are measured at the present value of the lease payments in the balance sheet. Expense is recognized a single lease cost allocated over the lease term on a generally straight-line basis. The cash flow statement classifies all cash payments within operating activities in the statement of cash flows. Asante adopted the new standard on October 1, 2020 using the modified retrospective transition method and prior periods were not recast; this resulted in the recognition of approximately \$16,929,000 of operating lease assets and \$2,218,000 short-term and \$15,233,000 long-term operating lease obligations. In adopting and applying this ASU, Asante elected to adopt several practical expedients, including not reassessing past lease accounting and not separating lease components from non-lease 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, Asante 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.

(3) COVID-19

On March 11, 2020, the World Health Organization announced the Novel Coronavirus Disease (COVID-19) Outbreak as a global pandemic and shortly following a national emergency declaration concerning the COVID-19 outbreak was enacted. Subsequently, Asante has been operating under Federal Government, along with State and local, mandates as of March 13, 2020, including a State of Emergency for Oregon declared by Governor Kate Brown in early March, which extended through the current fiscal year end. In response to COVID-19, and guidance from state and local public health authorities, Asante began modified operations in mid-March 2020 and continues to operate under some level of modified operations. Asante's patient volumes, access to labor, and supply chains have been adversely affected by the COVID-19 pandemic and State vaccine mandate. Such events are outside of Asante's control and are expected to continue to adversely affect its finances and operations throughout the COVID-19 pandemic, although the magnitude of such effects are not yet measurable.

The Coronavirus Aid, Relief and Economic Security (CARES) Act, which was enacted on March 27, 2020, authorized \$100 billion on funding to hospitals and other healthcare providers as provider relief funds (PRF). Payments from the provider relief fund were intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic. Provider relief funds were not required to be repaid provided recipients attest to and comply with certain terms and conditions, including limits on COVID-19 balance billing. Asante received \$9,385,777 and \$21,213,324 of general distributions and \$0 and \$11,882,081 of targeted funds as of September 30, 2021 and 2020, respectively which were included in other operating revenue.

In response to COVID-19, AACH was the recipient of Rural Hospital Stabilization Grant Funds. Grant funds were required to be used for COVID-19 related expenditure. For the fiscal year ended September 30, 2021 AACH, received and recognized \$2,386,634 in grant funds which was reporting in other operating revenue.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

In response to COVID-19 and subsequent to the CARES act, the Centers for Medicare and Medicaid Services (CMS), expanded the existing Accelerated and Advance Payments Program in order to accelerate cash flow to impacted health care providers. For the year ended September 30, 2020 Asante received accelerated and advanced payments of \$73,031,000. Recoupment of 25 percent of Medicare payments began in May 2021, one year after the payments were received and is expected to continue for 11 months. After the 11-month period, Medicare will begin recouping 50 percent of Medicare payments for six months. For the years ended September 30, 2021 and 2020, \$51,772,000 and \$73,031,000, respectively, was outstanding and recorded as current liabilities.

(4) Marketable Securities and Assets Whose Use is Limited

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

	2021	2020
Corporate equity securities	\$ 178,841	157,516
Mutual funds	692,702	424,285
Corporate bonds	37,287	34,600
Exchange-traded international index funds	9,212	6,984
U.S. government agency obligations	78,639	74,094
U.S. government obligations	10,490	4,333
Cash equivalents	29,507	313,044
Collateralized mortgage obligations	35,260	25,350
	1,071,938	1,040,206
Add:		
Assets held by Ashland Community Hospital Foundation	778	5,293
Less:		
Assets whose use is limited, current portion	8,750	15,324
Assets whose use is limited, net of current portion	263,962	338,221
Marketable securities	\$ 800,004	691,954

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

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange; valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets; Level 2 valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions; Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The following table presents the balances of assets measured at fair value on a recurring basis at September 30, 2021 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value</u>
Assets:				
Corporate equity securities:				
Large cap value	\$ 87,803	—	—	87,803
Small/mid cap growth	46,349	—	—	46,349
Large cap growth	44,689	—	—	44,689
Total	<u>178,841</u>	<u>—</u>	<u>—</u>	<u>178,841</u>
Mutual funds:				
Equity	307,330	—	—	307,330
Fixed income	181,448	—	—	181,448
Money market	203,924	—	—	203,924
Total	692,702	—	—	692,702
Corporate bonds	—	37,287	—	37,287
Exchange-traded international index funds	9,212	—	—	9,212
U.S. government agency obligations	—	78,639	—	78,639
U.S. government obligations	10,490	—	—	10,490
Cash equivalents	29,507	—	—	29,507
Collateralized mortgage obligations	—	35,260	—	35,260
Total	<u>\$ 920,752</u>	<u>151,186</u>	<u>—</u>	<u>1,071,938</u>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

(5) Property, Plant, and Equipment

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

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 51,678	44,022
Buildings	413,878	408,953
Equipment and furniture	379,223	350,979
Leasehold improvements	2,921	2,921
Operating lease right-of-use assets	16,929	—
Buildings under capital leases	<u>5,234</u>	<u>5,234</u>
Property, plant, and equipment, gross	869,863	812,109
Less accumulated depreciation	<u>(531,787)</u>	<u>(487,801)</u>
Property, plant, and equipment, net	338,076	324,308
Construction in progress	<u>181,313</u>	<u>55,010</u>
Total property, plant, and equipment	<u>\$ 519,389</u>	<u>379,318</u>

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. Capitalized interest was \$11,744,000 and \$2,002,000 as of September 30, 2021 and 2020.

(6) Other Assets

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

	<u>2021</u>	<u>2020</u>
Investments in healthcare ventures	\$ 5,618	5,716
Insurance recoverable	4,912	10,235
Other	<u>1,584</u>	<u>796</u>
Total other assets	<u>\$ 12,114</u>	<u>16,747</u>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

(7) Investments in Healthcare Ventures

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

	<u>Ownership</u>	<u>2021</u>	<u>2020</u>
CVISO Management Company, LLC	25.00 %	\$ (28)	146
Southern Oregon Linen Services	45.01	1,328	1,510
Surgery Center of Southern Oregon, LLC	20.00	1,347	1,485
The Women's Center LLC	50.00	232	321
Investment in CVI Real Property	25.00	767	776
Others	varies	<u>1,972</u>	<u>1,478</u>
Total investments in healthcare ventures		<u>\$ 5,618</u>	<u>5,716</u>

The investments in these ventures are accounted for under the equity method and are included in other assets, net in the accompanying consolidated balance sheets. Income from the equity investments in joint ventures, which was \$1,693,000 and \$1,730,000 for the years ended September 30, 2021 and 2020, respectively, is included in other operating revenue in the accompanying consolidated statements of operations.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

(8) Long-Term Debt and Finance Lease Obligations

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

	<u>2021</u>	<u>2020</u>
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2020A (inclusive of unamortized premium of \$81,716 and \$84,999 in 2021 and 2020, respectively), maturing in varying annual amounts, due 2050	\$ 520,661	523,944
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2020B, maturing in varying annual amounts, due 2025	20,000	20,000
Oregon Hospital Authority Direct Placement, maturing in varying annual amounts, due 2022 (2015 loan)	2,772	5,493
2016 Note, due 2023	4,965	7,882
2016 Medical Arts Building Note (MOB), due 2026	—	9,347
Other	8,795	9,172
Finance lease obligations	<u>498</u>	<u>521</u>
Total long-term debt and finance lease obligations	557,691	576,359
Less unamortized debt issuance costs	(4,969)	(5,092)
Less current portion	<u>(8,750)</u>	<u>(15,348)</u>
Total long-term debt and finance lease obligations, net of current portion	\$ <u>543,972</u>	<u>555,919</u>

Annual maturities of long-term debt and the future minimum financing lease obligations, excluding net bond premium of \$81,716,000, are as follows as of September 30, 2021 (in thousands):

	<u>Long-term debt</u>	<u>Finance lease obligations, excluding interest</u>
2022	\$ 8,723	27
2023	8,883	30
2024	9,019	33
2025	9,213	37
2026	9,574	40
Thereafter	<u>430,065</u>	<u>331</u>
Total long-term debt and finance lease obligations	\$ <u>475,477</u>	<u>498</u>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

(a) Series 2020A – Tax Exempt Bonds

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

(b) Series 2020B – Federally Taxable Bonds

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

(c) 2015 Loan

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

(d) 2016 Note

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

(e) 2016 MOB Note

The note was issued in August 2016 related to a medical office building purchase. The loan has a fixed rate of 6% with a 20-year amortization and a 10-year maturity. The loan is paid monthly. This loan was repaid in full in 2021.

(f) Guarantees

Asante guarantees a loan for CVI Real Property, LLC, which owns a building on the ARRCM campus. The amount of this loan was \$1,193,424 and \$3,099,773 at September 30, 2021 and 2020, respectively.

Asante has a 25% guarantee of indebtedness for CVISO Management Company, LLC. This guarantee is for an operating line of credit in an amount up to \$500,000. There was no balance outstanding on the line of credit at September 30, 2021 or 2020.

Asante guarantees a loan for The Women's Center, LLC, which owns a building adjacent to the ATRMC campus. The amount of this loan was \$4,431,130 and \$4,703,672 at September 30, 2021 and 2020, respectively.

(g) Debt Covenants

The bond indentures and other loan agreements contain, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of debt service coverage and other ratios. Management believes that Asante is in compliance with these covenants as of September 30, 2021.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

(9) Leases

After the adoption of ASC 842, effective October 1, 2020 finance leases included in property and equipment, net, were \$111,946. Finance leases included in current portion of long-term debt and finance lease obligations and long-term debt and finance lease obligations, net of current portion was \$27,000 and \$471,000, respectively. The operating leases included in property and equipment, net as of September 30, 2021 was \$16,929,000. The operating leases included in other current liabilities and other long-term liabilities were \$2,218,000 and \$15,233,000, respectively. Asante leases various buildings, office space, and equipment to support operations. The weighted average terms of the finance and operating leases were 11 and seven years, respectively. The weighted average discount rate on operating leases were 3.0%.

Asante incurred leases expenses for the year September 30, 2021 were as follows (in thousands):

Finance lease expense included in depreciation and amortization:		
Amortization of ROU assets		\$ 26
Finance lease expense included in interest:		
Interest on lease liabilities		31
		<hr/>
Total finance lease expense		57
Operating lease expense included in rent and utilities		
		<hr/>
Total lease expense		\$ 2,808
		<hr/> <hr/>

The finance and operating lease liabilities will mature as follows:

	<u>Finance leases</u>	<u>Operating leases</u>	<u>Total leases</u>
2022	\$ 27	2,762	2,789
2023	30	2,340	2,370
2024	33	1,709	1,742
2025	37	1,547	1,584
2026	40	1,513	1,553
Thereafter	<hr/>	<hr/>	<hr/>
	331	13,513	13,844
	<hr/>	<hr/>	<hr/>
	\$ 498	23,384	23,882
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

Operating lease information for the fiscal year ended September 30, 2020, which applied the accounting standard of ASC 840, *Leases*, are as follows:

Rent expense related to operating leases was \$2,997,000 for the year ended September 30, 2020. Future minimum lease commitments at September 30, 2020 under noncancelable operating leases with initial terms of one year or more are as follows (in thousands):

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

(10) Retirement Plan

Asante sponsors the Asante Retirement Plan and Trust, a defined-contribution plan, which has two components: the matching plan and the basic plan. Under the basic plan, Asante contributes 3% of the employee's salary to a tax deferred account. All eligible employees receive this contribution, whether or not they contribute to a tax deferred account. Under the matching plan, after completion of one year of service, Asante matches 50% of the employee's contribution, up to a maximum match of 3% of the employee's pay. To be eligible for both the basic and matching plans, employees must work at least one year and maintain a work level of at least 1,000 hours per year. Contributions are funded every two weeks and are fully and immediately vested. Costs related to these defined-contribution plans for Asante totaled \$23,113,000 and \$19,566,000 for the years ended September 30, 2021 and 2020, respectively.

(11) Defined-Benefit Pension Plan

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

The following table sets forth disclosures related to the Plan in accordance with FASB ASC Section 715-20-65, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of September 30, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Change in projected benefit obligation:		
Projected benefit obligation (PBO) at beginning year	\$ 45,886	43,807
Interest cost	1,041	1,258
Plan amendments	(614)	—
Actuarial (gain)/loss on PBO, net	(1,210)	2,509
Benefits paid	<u>(2,198)</u>	<u>(1,688)</u>
Projected benefit obligation at year-end	\$ <u>42,905</u>	<u>45,886</u>
Change in fair value of plan assets:		
Fair value of assets at beginning of year	\$ 30,042	27,563
Contributions	564	2,575
Actual return on plan assets	6,998	1,592
Benefits paid	<u>(2,198)</u>	<u>(1,688)</u>
Fair value of assets at end of year	\$ <u>35,406</u>	<u>30,042</u>
Reconciliation of funded status:		
Funded status – liability	\$ <u>7,499</u>	<u>15,844</u>
Net amount recognized	\$ <u>7,499</u>	<u>15,844</u>

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

The accumulated benefit obligation for the Plan is the same as the projected benefit obligation at September 30, 2021 and 2020.

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

	<u>2021</u>	<u>2020</u>
Interest cost	\$ 1,041	1,258
Expected return on plan assets	(1,762)	(1,668)
Other changes in pension liability	(614)	—
Recognized actuarial loss (gain)	<u>(6,446)</u>	<u>2,585</u>
Net periodic pension cost (benefit)	\$ <u>(7,781)</u>	<u>2,175</u>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

Assumptions

Asante used the following actuarial assumptions to determine its benefit obligations at September 30, 2021 and 2020:

	2021	2020
Discount rate	2.55 %	2.32 %

Asante used the following actuarial assumptions to determine its net periodic benefit cost for the years ended September 30, 2021 and 2020:

	2021	2020
Discount rate	2.32 %	2.94 %
Expected long-term rate of return on plan assets	6.00	6.00

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

The mortality assumptions were based on the PRI-2012 table with MP-2020 projections as of September 30, 2021.

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

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2021 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>
Cash and equivalents	\$ 131	—	—	131
U.S. Common Stock	4,565	—	—	4,565
Government Agency Securities	—	5,773	—	5,773
Mutual funds:				
Large cap	8,248	—	—	8,248
Mid cap	2,514	—	—	2,514
Small cap	1,814	—	—	1,814
International	7,798	—	—	7,798
Fixed income	3,222	—	—	3,222
High yield	1,331	—	—	1,331
Other	10	—	—	10
Total plan assets at fair value	<u>\$ 29,633</u>	<u>5,773</u>	<u>—</u>	<u>35,406</u>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

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

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

Cash Flows

Asante's policy with respect to funding the Plan is to fund a least the minimum required by the Employee Retirement Income Security Act of 1974, as amended, plus such additional amounts deemed appropriate. In fiscal year 2022, Asante expects to contribute approximately \$689,000 to the Plan.

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

	<u>Pension benefits</u>
2022	\$ 2,604
2023	2,242
2024	2,241
2025	2,206
2026	2,296
2027–2031	11,435

(12) Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Asante expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

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September 30, 2021 and 2020

Generally, Asante bills patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

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

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

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

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Asante's historical settlement activity and are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments from finalization and adjustment of prior years' cost reports and other third-party settlement estimates resulted in an increase in net patient service revenue of approximately \$751,000 for September 30, 2021 and a decrease of \$1,414,000 for the year ended September 30, 2020.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance. Asante also provides services to uninsured patients and offers those uninsured patients a discount from standard charge. Asante estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended September 30, 2021 and 2020 was not significant.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

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

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

	2021	2020
Revenue by payor:		
Medicare	\$ 389,952	364,962
Medicaid	205,804	175,032
Commercial and others	440,985	382,896
Private pay	13,640	17,644
	\$ 1,050,381	940,534
	2021	2020
Patient revenue:		
Inpatient revenue	\$ 511,699	442,174
Outpatient revenue	538,682	498,360
	\$ 1,050,381	940,534

(13) Charity and Community Benefit

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

	2021	2020
Cost of charges forgone:		
Charity care services	\$ 6,795	7,542
Medicaid services, net of reimbursement	65,260	60,548
Medicare services, net of reimbursement	105,303	101,154
Other public services	16,743	8,371
Total charity and government programs	\$ 194,101	177,615

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

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

(14) Functional Classification of Operating Expenses

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

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

	2021		
	Patient services	Support services	Total
Salaries and benefits	\$ 474,422	149,655	624,077
Supplies	197,893	9,910	207,803
Purchased services	20,686	63,520	84,206
Professional fees	2,979	18,851	21,830
Repairs and maintenance	8,437	3,177	11,614
Insurance	2,859	986	3,845
Rent and utilities	1,113	11,599	12,712
Interest and amortization	—	5,976	5,976
Depreciation	—	43,593	43,593
Provider tax	56,013	—	56,013
Other	2,187	4,930	7,117
Total	<u>\$ 766,589</u>	<u>312,197</u>	<u>1,078,786</u>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

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

(15) Liquidity

As of September 30, 2021, Asante has working capital excess of \$113,959,000 and average days (based on normal expenditures) cash on hand of 342 days.

The table below represents financial assets available for general expenditures within one year at September 30, 2021:

	2021	2020
Financial assets at year end:		
Cash and cash equivalents	\$ 123,440	177,267
Accounts receivable, net	151,738	114,608
Marketable securities	800,004	691,954
Total financial assets	\$ <u>1,075,182</u>	<u>983,829</u>

Asante has other assets limited to use for donor-restricted purposes and debt service. Additionally, certain other foundation donor restricted assets are designated for future capital expenditures. These assets limited to use, which are more fully described in note 2(m), are not available for general expenditure within the next year and are not reflected in the amounts above.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

(16) Commitments and Contingencies

(a) Risk Management

In the ordinary course of business, Asante is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. However, management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the years ended September 30, 2021 and 2020.

(b) Regulations and Litigation

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

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

(c) Collective Bargaining Agreements

Approximately 16.9% of Asante's employees are covered by a collective bargaining agreement. All employees are bedside nurses with the Oregon Nurses Association working at ARRCM. One contract covers all the employees in this bargaining unit, and the most recent contract is effective October, 24, 2020 through September 30, 2023.

(d) Purchase Commitments

Asante has committed to various construction and information technology purchases, including ARRCM Parking Garage, ARRCM Cancer Center, ARRCM Pavilion design and preconstruction and ATRMC Emergency Department. As of September 30, 2021, future commitments for these projects total approximately \$219,945,000. Commitments are expected to be funded by the Series 2020A – Tax Exempt bond funds, Series 2020B – Federally Tax-Exempt bond funds and excess working capital.

(17) Subsequent Events

Asante has evaluated the impact of subsequent events through December 9, 2021, the date on which the consolidated financial statements were issued and has determined that all subsequent events have been appropriately reflected in the accompanying consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

September 30, 2021

(In thousands)

Assets	Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Current assets:				
Cash and cash equivalents	\$ 115,625	7,815	—	123,440
Assets whose use is limited, current portion	8,750	—	—	8,750
Patient accounts receivable, net	146,841	4,897	—	151,738
Accrued interest and other receivables	23,877	1,907	—	25,784
Inventories	16,209	—	—	16,209
Prepaid expenses	17,620	74	—	17,694
Total current assets	<u>328,922</u>	<u>14,693</u>	<u>—</u>	<u>343,615</u>
Intercompany receivable (payable)	186,880	(186,880)	—	—
Assets whose use is limited:				
Restricted by donors	—	28,477	—	28,477
Beneficial interest in ACH Foundation	—	778	—	778
Assets restricted under bond indenture	198,120	—	—	198,120
Board and other designated assets	30,955	14,382	—	45,337
	<u>229,075</u>	<u>43,637</u>	<u>—</u>	<u>272,712</u>
Less amount required to meet current obligations	<u>8,750</u>	<u>—</u>	<u>—</u>	<u>8,750</u>
	220,325	43,637	—	263,962
Marketable securities	776,420	23,584	—	800,004
Property, plant, and equipment, net	494,707	24,682	—	519,389
Land held for future use	10,809	—	—	10,809
Beneficial interest in Asante Foundation	36,626	—	(36,626)	—
Other assets, net	12,222	(108)	—	12,114
Total assets	<u>\$ 2,066,911</u>	<u>(80,392)</u>	<u>(36,626)</u>	<u>1,949,893</u>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

September 30, 2021

(In thousands)

Liabilities and Net Assets	Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Current liabilities:				
Accounts payable	\$ 36,642	1,226	—	37,868
Payroll, payroll taxes, and related benefits	57,241	1,674	—	58,915
Self-insurance liability, current portion	8,559	1,988	—	10,547
Estimated reimbursement due to government agencies, net	7,376	—	—	7,376
Other current liabilities	45,359	9,069	—	54,428
Medicare accelerated and advance payments	51,772	—	—	51,772
Current portion of long-term and financing lease obligations	8,750	—	—	8,750
Total current liabilities	215,699	13,957	—	229,656
Long-term debt and financing lease obligations, net of current portion and unamortized bond cost	543,972	—	—	543,972
Pension benefit obligation	7,499	—	—	7,499
Other long-term liabilities	31,216	5,327	—	36,543
Total liabilities	798,386	19,284	—	817,670
Net assets:				
Without donor restrictions	1,244,558	(128,931)	(12,665)	1,102,962
With donor restrictions	23,967	29,255	(23,961)	29,261
Total net assets	1,268,525	(99,676)	(36,626)	1,132,223
Total liabilities and net assets	\$ 2,066,911	(80,392)	(36,626)	1,949,893

See accompanying independent auditors' report.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Operations and Changes in Net Assets Information

Year ended September 30, 2021

(In thousands)

	<u>Asante Obligated Group</u>	<u>Other affiliates</u>	<u>Eliminations</u>	<u>Consolidated total</u>
Revenue and other support:				
Net patient service revenue	\$ 981,682	68,699	—	1,050,381
Other operating revenue	<u>31,129</u>	<u>18,143</u>	<u>(2,051)</u>	<u>47,221</u>
Total revenue and other support	<u>1,012,811</u>	<u>86,842</u>	<u>(2,051)</u>	<u>1,097,602</u>
Operating expenses:				
Salaries and benefits	539,574	84,503	—	624,077
Supplies	202,775	5,028	—	207,803
Purchased services	70,723	13,483	—	84,206
Professional fees	21,533	297	—	21,830
Repairs and maintenance	11,406	208	—	11,614
Insurance	2,171	3,040	(1,366)	3,845
Rent and utilities	12,597	115	—	12,712
Interest and amortization	5,976	685	(685)	5,976
Depreciation	41,631	1,962	—	43,593
Provider tax expense	56,013	—	—	56,013
Other	<u>5,527</u>	<u>1,590</u>	<u>—</u>	<u>7,117</u>
Total operating expenses	<u>969,926</u>	<u>110,911</u>	<u>(2,051)</u>	<u>1,078,786</u>
Operating income (loss)	42,885	(24,069)	—	18,816
Nonoperating income	<u>132,464</u>	<u>6,573</u>	<u>—</u>	<u>139,037</u>
Excess (deficit) of revenues over expenses	175,349	(17,496)	—	157,853
Net assets without restrictions released from restrictions used for purchases of property, plant, and equipment	<u>2,325</u>	<u>1</u>	<u>—</u>	<u>2,326</u>
Increase (decrease) in net assets without donor restrictions	<u>177,674</u>	<u>(17,495)</u>	<u>—</u>	<u>160,179</u>
Net assets with donor restriction:				
Contributions and investment income	11,965	11,965	(11,965)	11,965
Net assets released from restrictions	<u>(8,202)</u>	<u>(8,202)</u>	<u>8,202</u>	<u>(8,202)</u>
Increase (decrease) in net assets with restrictions	<u>3,763</u>	<u>3,763</u>	<u>(3,763)</u>	<u>3,763</u>
Increase (decrease) in net assets	181,437	(13,732)	(3,763)	163,942
Net assets, beginning of year:				
Without donor restrictions	1,066,884	(111,436)	(12,665)	942,783
With donor restrictions	<u>20,204</u>	<u>25,492</u>	<u>(20,198)</u>	<u>25,498</u>
Net assets, end of year	\$ <u>1,268,525</u>	<u>(99,676)</u>	<u>(36,626)</u>	<u>1,132,223</u>

See accompanying independent auditors' report.