



TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Information

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

TUALITY HEALTHCARE AND SUBSIDIARIES

Table of Contents

	Page(s)
Independent Auditors' Report	1–2
Consolidated Balance Sheets as of June 30, 2021 and 2020	3–4
Consolidated Statements of Operations for the years ended June 30, 2021 and 2020	5
Consolidated Statements of Changes in Net Assets for the years ended June 30, 2021 and 2020	6
Consolidated Statements of Cash Flows for the years ended June 30, 2021 and 2020	7
Notes to Consolidated Financial Statements	8–31
Supplementary Information	
Consolidating Schedule of Balance Sheet Information as of June 30, 2021 and 2020	32–33
Consolidating Schedule of Operations for the years ended June 30, 2021 and 2020	34



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

Independent Auditors' Report

The Board of Directors
Tuality Healthcare:

We have audited the accompanying consolidated financial statements of Tuality Healthcare and its subsidiaries, which comprise the consolidated balance sheets as of June 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 Tuality Healthcare and its subsidiaries as of June 30, 2021 and 2020, and the changes in their net assets 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, in fiscal year 2021 Tuality Healthcare adopted the new accounting guidance in Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). Our opinion is not modified with respect to this matter.



Other Matter

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

KPMG LLP

Portland, Oregon
October 14, 2021

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2021 and 2020

Assets	2021	2020
Current assets:		
Cash and cash equivalents	\$ 15,812,234	6,148,414
Short-term investments	623,941	911,589
Patient accounts receivable, net of allowance for uncollectible accounts of \$1,405,178 as of June 30, 2020	38,936,119	29,340,597
Due from related party	—	20,950,105
Other receivables	6,549,100	3,484,051
Supplies inventory	4,902,513	3,842,062
Prepaid expenses and other	2,441,725	2,152,604
Current portion of assets whose use is limited	1,010,068	991,582
Total current assets	<u>70,275,700</u>	<u>67,821,004</u>
Assets whose use is limited:		
Board-designated funds	41,245,989	34,706,362
Under bond indenture agreement – held by Trustee	939	948
Donor-restricted – specific purpose	6,888,186	4,049,056
Donor-restricted – endowment	2,761,346	2,812,317
Required for current liabilities	<u>(1,010,068)</u>	<u>(991,582)</u>
Total assets whose use is limited	<u>49,886,392</u>	<u>40,577,101</u>
Property and equipment:		
Property and equipment, net of accumulated depreciation and amortization	62,752,351	62,332,436
Other assets:		
Other receivables – noncurrent	1,306,500	1,378,500
Investments in unconsolidated affiliates	1,104,376	1,520,876
Deferred compensation plan	2,813,743	2,357,761
Cash value of life insurance	727,382	564,934
Deferred costs and other	230,187	230,187
Intangible assets	1,550,159	1,610,335
Goodwill	318,500	318,500
Total other assets	<u>8,050,847</u>	<u>7,981,093</u>
Total assets	<u>\$ 190,965,290</u>	<u>178,711,634</u>

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2021 and 2020

Liabilities and Net Assets	2021	2020
Current liabilities:		
Accounts payable	\$ 15,133,166	14,762,403
Accrued payroll and employee benefits	13,476,435	12,863,734
Due to related party	2,007,205	—
Deferred revenue	13,106,758	16,590,355
Estimated liabilities for Medicare and Medicaid settlements	423,170	450,057
Long-term debt due within one year	1,051,857	1,021,001
Accrued bond interest payable	85,068	91,582
Total current liabilities	<u>45,283,659</u>	<u>45,779,132</u>
Long-term liabilities:		
Long-term debt, net of amount due within one year	11,034,318	12,072,581
Liability for pension benefits	42,224,066	66,443,796
Other long-term liabilities	26,093,296	23,884,941
Total long-term liabilities	<u>79,351,680</u>	<u>102,401,318</u>
Total liabilities	<u>124,635,339</u>	<u>148,180,450</u>
Net assets:		
Net assets without donor restrictions	56,575,736	23,264,972
Net assets with donor restrictions	9,754,215	7,266,212
Total net assets	<u>66,329,951</u>	<u>30,531,184</u>
Total liabilities and net assets	<u>\$ 190,965,290</u>	<u>178,711,634</u>

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

For the years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net patient service revenue:		
Patient service revenue (net of contractual allowances and discounts)		199,409,821
Provision for bad debts		<u>(5,266,053)</u>
Total net patient service revenue	\$ 226,775,029	<u>194,143,768</u>
Other revenue:		
OHSU support	746,452	25,321,427
Other revenue	<u>24,738,334</u>	<u>11,792,946</u>
Total other revenue	<u>25,484,786</u>	<u>37,114,373</u>
Total revenue	<u>252,259,815</u>	<u>231,258,141</u>
Operating expenses:		
Salaries and wages	91,704,281	88,626,249
Employee benefits	23,270,526	25,264,423
Supplies and other expenses	93,014,957	81,625,041
Professional fees	31,946,837	26,802,774
Depreciation and amortization	8,291,254	8,498,079
Interest	<u>718,534</u>	<u>781,179</u>
Total operating expenses	<u>248,946,389</u>	<u>231,597,745</u>
Income (loss) from operations	<u>3,313,426</u>	<u>(339,604)</u>
Other non-operating income:		
Realized income on investments whose use is limited by board designation	221,574	1,060,462
Gain on investments in affiliated companies	2,303,396	3,241,541
Gain/(loss) on disposal of property and equipment	17,900	(35,493)
Change in net unrealized gains (losses) on investments	6,132,923	(317,369)
Other operating revenue	<u>—</u>	<u>302,482</u>
Total other income	<u>8,675,793</u>	<u>4,251,623</u>
Excess of revenue over expenses	11,989,219	3,912,019
Contributions for property and equipment acquisition	506,427	909,425
Pension-related changes	<u>20,815,118</u>	<u>(20,099,148)</u>
Increase (decrease) in net assets without donor restrictions	\$ <u>33,310,764</u>	<u>(15,277,704)</u>

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

For the years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net assets without donor restrictions:		
Excess of revenue over expenses	\$ 11,989,219	3,912,019
Contributions for property and equipment acquisition	506,427	909,425
Pension-related changes	<u>20,815,118</u>	<u>(20,099,148)</u>
Increase (decrease) in net assets without donor restrictions	<u>33,310,764</u>	<u>(15,277,704)</u>
Net assets with donor restrictions:		
Gifts, grants, and bequests	2,232,518	1,808,800
Investment (loss) income	1,792,601	(190,600)
Net assets released from restrictions	(1,538,809)	(2,111,609)
Contributions for endowment funds	<u>1,693</u>	<u>2,124</u>
Increase (decrease) in net assets with donor restrictions	<u>2,488,003</u>	<u>(491,285)</u>
Change in net assets	35,798,767	(15,768,989)
Net assets, beginning of year	<u>30,531,184</u>	<u>46,300,173</u>
Net assets, end of year	<u><u>\$ 66,329,951</u></u>	<u><u>30,531,184</u></u>

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 35,798,767	(15,768,989)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,291,254	8,498,079
Net realized and unrealized (gain) loss on investments	(8,147,098)	99,225
Gain on investment in affiliated companies	(2,303,396)	(3,241,541)
Gain on disposal of property and equipment	(17,900)	(401,867)
Increase in cash value of life insurance	(162,448)	(35,624)
Restricted contributions	(2,310,909)	(1,620,324)
Cash distributed from corporate joint venture	1,067,929	3,857,280
Changes in assets and liabilities that provided cash:		
Accounts receivable	(12,660,571)	3,150,988
Accounts due to/from related party	22,957,310	(18,217,489)
Inventories	(1,060,451)	(83,793)
Prepaid expenses and other	(217,121)	638,716
Accounts payable	370,763	2,875,313
Accrued payroll and employee benefits	2,821,056	(4,876,402)
Long-term pension liability	(24,219,730)	20,099,148
Estimated liabilities for Medicare and Medicaid settlements	(26,887)	(2,754)
Deferred revenue	(3,483,597)	16,590,355
Accrued bond interest	(6,514)	(6,300)
Net cash provided by operating activities	<u>16,690,457</u>	<u>11,554,021</u>
Cash flows from investing activities:		
Purchase of property and equipment	(8,633,093)	(10,595,847)
Purchases of securities	(13,221,026)	(12,113,699)
Proceeds from sales of securities	13,686,428	13,124,005
Net investment in cash value life insurance	(162,448)	(128,124)
Net cash used in investing activities	<u>(8,330,139)</u>	<u>(9,713,665)</u>
Cash flows from financing activities:		
Proceeds from restricted contributions	2,310,909	1,620,324
Principal payments on long-term debt	(1,007,407)	(1,028,891)
Net cash provided by financing activities	<u>1,303,502</u>	<u>591,433</u>
Increase (decrease) in cash cash equivalents and restricted cash	9,663,820	2,431,789
Cash, cash equivalents and restricted cash, beginning of year	<u>6,148,414</u>	<u>3,716,625</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 15,812,234</u>	<u>6,148,414</u>
Supplementary disclosures of cash flow information:		
Cash paid during the year for interest	\$ 695,163	763,962
Accounts payable related to capital projects	646,532	414,939

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(1) Summary of Organization and Accounting Policies

Tuality Healthcare and subsidiaries (Tuality), doing business as Hillsboro Medical Center, is a licensed 215-bed hospital and health services provider operating in Washington County, Oregon. Tuality operates Tuality Community Hospital in Hillsboro, Oregon. In addition to acute care hospital services, Tuality provides a wide array of outpatient diagnostic and treatment services throughout western Washington County. Tuality is a component unit of Oregon Health & Science University.

Tuality is the parent company and sole member or stockholder of the following companies:

Tuality Management Systems, Inc. (TMSI), which owns taxable affiliated corporation Tuality Medical Equipment & Supply (TMES) that sells and rents medical durable goods.

Tuality Property Management, Inc., holds hospital-related real estate and property acquired for future hospital expansion or investment.

Tuality Healthcare Foundation, Inc., a foundation established to support Tuality by funding projects and programs that enrich the patient experience and wellness of our community.

The organizations are nonprofit corporations under the laws of the State of Oregon, maintaining tax-exempt status, except for Tuality Management Systems, Inc., which is a for-profit, taxable corporation.

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Tuality and all majority-owned or controlled subsidiaries (collectively "Tuality"). Subsidiaries in which Tuality has less than a controlling interest are generally accounted for by the equity method, which approximates Tuality's equity in their underlying net book value. All significant intercompany accounts and transactions have been eliminated.

(b) Use of Estimates

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

(c) Subsequent Events

Management has evaluated subsequent events through October 14, 2021, the date the consolidated financial statements were available to be issued.

(d) Patient Accounts Receivable

Accounts receivable are stated at unpaid balances, net of explicit and implicit price concessions. Substantially all of Tuality's receivables are related to providing healthcare services to its hospital's patients, except amounts due to from OHSU.

Tuality estimates the allowance for implicit price concessions by reserving a percentage of all self-pay accounts receivable, based on collection history, adjusted for expected recoveries and, if present,

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

anticipated changes in trends. The percentage used to reserve for all self-pay accounts is based on Tuality's recent collection history. Reserves for explicit price concessions on accounts with third-party payors are set taking into consideration contractually expected amounts.

Collections are impacted by the economic ability of patients to pay and the effectiveness of Tuality's collection efforts. Significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage could affect Tuality's collection of accounts receivable and the estimates of the price concessions related to current accounts receivable. The allowance for implicit price concessions is decreased by write-offs (net of recoveries). Accounts receivable are written off after collection efforts have been followed in accordance with Tuality's policies.

(e) Due to/from Related Party

As of June 30, 2021 and 2020, respectively, Tuality recorded amounts due to related party of \$2,007,205 at June 30, 2021 and due from related party of \$20,950,105 at June 30, 2020 for OHSU operating and cash flow support.

(f) Net Patient Service Revenue

Net patient service revenue is reported as the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(g) Cash and Cash Equivalents

Tuality considers all highly liquid short-term investments with maturities of three months or less, at date of purchase or acquisition, to be cash equivalents, except for cash equivalents included in its investment portfolios.

(h) Investments and Assets Whose Use is Limited

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments valued utilizing net asset value (NAV) as a practical expedient are excluded from the fair value hierarchy.

Investment income or loss (including realized gains and losses on investments, unrealized gain/loss on trading or equity securities, interest, and dividends) is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. Investment income on investments of donor-restricted funds are added to the appropriate restricted fund balance.

(i) Supplies Inventory

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

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(j) Property and Equipment

Property and equipment are carried at cost. Any purchases of land, buildings, and equipment that have an expected useful life greater than one year and a cost greater than \$5,000 are capitalized. Refurbishments or improvements that extend the useful life of an existing asset are also capitalized subject to the same cost materiality threshold of \$5,000. Donated assets are carried at fair market value at date of donation. Leased assets under capital leases are carried at the present value of future lease payments. The carrying amounts of assets sold, retired, or otherwise disposed of and the related allowances for depreciation are eliminated from the accounts, and any resulting gain or loss is included in operating income or expense. Depreciation of property and equipment is provided by annual charges to expense on a straight-line basis over the expected useful lives of the assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The range of annual lives used in computing depreciation is as follows:

- Buildings: 10–50 Years
- Fixed Equipment: 15–20 Years
- Movable Equipment: 3–20 Years

(k) Intangible Assets

Intangible assets are recorded at cost and are amortized on a straight-line basis over the estimated useful life of the asset.

(l) Goodwill

Goodwill is not subject to amortization. Management tests for impairment on an annual basis. No adjustment for impairment was made for the years ended June 30, 2021 or 2020.

(m) Federal and State Income Taxes

Tuality is a nonprofit corporation and it is management's opinion that substantially none of its activities are subject to unrelated business income taxes. Certain subsidiaries, however, are subject to income taxes, although no significant amounts have been incurred to date.

U.S. generally accepted accounting principles require management of Tuality to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the organization and has concluded that as of June 30, 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. Tuality is subject to routine audits by taxing jurisdictions but no audits are currently in process.

(n) Estimated Malpractice Claims

Tuality purchases professional and general liability insurance to cover medical malpractice claims on a claims-made basis. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

to patients. Tuality accrues an estimate of the ultimate costs for both reported claims and claims incurred but not reported, as well as an estimated receivable for expected insurance reimbursements.

(o) Net Assets with Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Net assets with donor restrictions:		
Education	\$ 7,911,721	5,439,425
Patient care	<u>1,842,494</u>	<u>1,826,787</u>
	<u>\$ 9,754,215</u>	<u>7,266,212</u>

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

Unconditional promises to give cash and other assets to Tuality are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is met or the intention to give becomes irrevocable. The gifts are reported as donor-restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

(p) Income (Loss) from Operations

Income (loss) from operations includes income from provision of patient services, as well as other revenue consisting primarily of Oregon Health & Science University (OHSU) support, management fees, rental income, and realized investment income on other than board-designated assets. Income (loss) from operations excludes components of net periodic pension costs other than service cost and certain items that Tuality deems to be outside the scope of its primary business.

(q) Excess of Revenue over Expenses

The consolidated statements of operations include excess of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets) and certain pension-related changes.

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(r) OHSU Affiliation

On February 1, 2016, Tuality affiliated with OHSU through the execution of a Management Agreement (the Agreement) between the organizations. Under the Agreement, OHSU agrees to oversee the unified and integrated clinical enterprises of OHSU and Tuality as a single, integrated economic unit. OHSU and Tuality remain as separate entities, own their own assets, and continue to be the licensed operators of their own facilities. Per the Agreement, OHSU has guaranteed operating income and operating cash flow support. Operating income support amounted to \$746,452 and \$25,321,427 and operating cash flow support amounted to \$290,638 and \$4,035,691 for the years ended June 30, 2021 and 2020, respectively. Operating cash flow support is a loan with the balance of \$19,590,794 and \$19,300,157 as of June 30, 2021 and 2020, respectively, and is included in other long-term liabilities the consolidated balance sheets. As of June 30, 2021, there exists on Tuality's financial statements an operating support payable of \$2,007,205 for June 30, 2021 and a receivable of \$20,950,105 at June 30, 2020.

As a related party, Tuality utilized \$43,637,811 and \$41,685,862 of services during the years ended June 30, 2021 and 2020, respectively, from OHSU, primarily related to providers and their support components, including specialty services that were not available to the community in the past, IT services and access to technology, and revenue cycle services including electronic medical records. These expenses primarily consist of professional fees and purchased services.

(s) New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. The ASU applies to all leases of tangible assets and the new standard is effective for Tuality on July 1, 2022. Management is evaluating the effect that ASU No. 2016-02 will have on its consolidated financial statements and related disclosures. Management has not yet selected a transition method, nor has it determined the effect of the standard on its ongoing financial reporting. The primary impact of this pronouncement will be for Tuality to record a liability related to future minimum operating lease payments, and an associated right-of-use asset.

(t) Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (ASC 606)*. The ASU replaced most existing revenue recognition guidance in U.S. generally accepted accounting principles. Management has adopted ASC 606 effective July 1, 2020 on a modified retrospective basis. The adoption of the new ASU did not have a material impact on Tuality's consolidated financial statements, although certain disclosures and presentation items were impacted.

(2) COVID-19

The CARES Act, which was enacted on March 27, 2020, authorizes \$100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the "PHSSEF"). Payments from the PHSSEF are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid, provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. In FY 2020, Tuality received \$5,497,237 in payments from the PHSSEF distribution and recognized \$3,549,776 as revenue, with \$1,947,461 remaining as deferred

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

revenue. In FY 2021, Tuality received \$11,889,793 in payments from the PHSSEF distribution and recognized \$13,837,254 as revenue, of which \$1,947,461 was related to payments received in the previous year. Revenue is included in the other revenue caption in the consolidated statement of operations.

As a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic, the CARES Act expanded the Medicare Accelerated and Advance Payment Program. Inpatient acute care hospitals were able to request accelerated payments of up to 100% of the Medicare payment amount for a six month period (not including Medicare Advantage payments). CMS based payment amounts for inpatient acute care hospitals on the provider's Medicare fee-for-service reimbursements in the last six months of 2019. Such accelerated payments are interest free for inpatient acute care hospitals for 29 months, and the program currently requires CMS to recoup the payments beginning 12 months after receipt by the provider, by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped. The program currently requires any outstanding balance remaining after 29 months to be repaid by the provider or be subject to an interest rate currently set at 4.0%. Therefore, they will be accounted for as revenue. In April 2020, the Health System received \$14,645,895 of accelerated payments, which was recorded in the consolidated balance sheet as of June 30, 2020 as deferred revenue. As of June 30, 2021, a total of \$1,536,135 has been recouped through payment withholdings leaving an outstanding balance of \$13,106,758.

The CARES act also allowed employers to defer the employer portion of FICA taxes which Tuality opted to do from March 27, 2020 through December 31, 2020, with 50% being due December 31, 2021 and 50% due by December 31, 2022. As of June 30, 2021, Tuality had deferred a total of \$3,466,515 in payroll taxes.

Due to the continued impacts of the COVID-19 pandemic, there is still a high degree of uncertainty surrounding their implementation, and the public health emergency continues to evolve. Tuality continues to assess the potential impact of the CARES Act, the PPPHCE Act, the potential impact of future stimulus measures, if any, and the impact of other laws, regulations, and guidance related to COVID-19 on our business, results of operations, financial condition and cash flows.

(3) Investments and Assets Whose Use is Limited

(a) Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates consisted of the following at June 30, 2021 and 2020:

June 30, 2021				
	Cost or equity	Percentage of ownership	Investments	Income/(loss)
Raines Dialysis Center	Equity	20 %	\$ 636,341	220,235
Mountain States				
Healthcare	Cost	5	310,181	—
Noble Woods	Equity	22	152,854	179,085
West Coast Sourcing	Cost	1	5,000	—
Tuality Health Alliance	Cost	33.3	—	1,904,076
			\$ 1,104,376	2,303,396

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

June 30, 2020				
	<u>Cost or equity</u>	<u>Percentage of ownership</u>	<u>Investments</u>	<u>Income/(loss)</u>
Raines Dialysis Center Northwest Hospital Partnership, Inc.	Equity	20 %	\$ 715,506	193,208
Mountain States Healthcare	Equity	—	—	(465,687)
Noble Woods	Cost	5	310,181	—
West Coast Sourcing	Equity	22	240,189	261,404
Tuality Health Alliance	Cost	1	5,000	—
		33.3	250,000	3,252,616
			\$ 1,520,876	3,241,541

(i) Tuality Health Alliance

Tuality was the sole corporate member of Tuality Health Alliance (THA), an Oregon taxable, not-for-profit corporation organized to create an association of hospitals and physicians dedicated to the delivery of comprehensive, affordable and quality integrated healthcare services to the communities they serve. As of December 31, 2019, THA was no longer contracted to provide new services to the patient population it once served with patient care transitioning to the OHSU Health IDS.

Tuality charged THA management fees of \$47,598 and \$1,944,300 for the years ending June 30, 2021 and 2020, respectively. Management fees receivable were \$0 and \$0 at June 30, 2021 and 2020, respectively.

Existing funds within THA must be dispositioned appropriately, with full dissolution of THA anticipated by December 31, 2021.

(b) Investment Income

Investment income on board-designated funds including unrealized gains and losses, is included in other non-operating activities.

Investments made by the Tuality Healthcare Foundation shall be managed in accordance with the laws of the State of Oregon, and in ways that maximize overall return on investment with minimal risk to the investment, while promoting stability, flexibility, diversification, and liquidity. The Foundation is the recipient of many donor-restricted gifts, the expenditure of which occurs over time for a variety of charitable purposes. These funds, in addition to miscellaneous unrestricted funds, shall not be pooled with the endowed funds for investment purposes, as the investment objectives for these funds differ from the long-term objective of the endowed funds. These funds will be individually accounted for and will accrue pro rata investment income until the principal amounts are distributed for their specific purposes. Non-endowed funds shall be invested in a combination of bonds and cash, with the goal of exposing the funds to very low risk. For non-endowed funds, any bonds held will be subject to limited maturity (three years). It is the Foundation's intention to hold these bonds as trading securities.

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

The Foundation will spend up to 6% of a three-year moving average of the total fair value of the endowment assets annually to support community education programs and specific scholarships as designated by the various endowments. For purposes of determining the amount available to spend, the average will be calculated from the fair value of the endowments on June 30 of each year.

Changes in endowment net assets for the years ended June 30, 2021 and 2020 are as follows:

	<u>Net assets with donor restriction</u>
Balance as of June 30, 2019	\$ 5,148,701
Investment loss	(190,600)
Contributions	2,124
Appropriated for expenditure	<u>(256,001)</u>
Balance as of June 30, 2020	4,704,224
Investment gain	945,760
Contributions	1,693
Appropriated for expenditure	<u>(251,951)</u>
Balance as of June 30, 2021	<u><u>\$ 5,399,726</u></u>

(4) Liquidity and Availability

As of June 30, 2021, Tuality Healthcare has working capital of \$24,992,041. As of June 30, 2020, Tuality Healthcare has working capital of \$22,041,872.

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 15,812,234	6,148,414
Short term investments	623,941	911,589
Patient accounts receivable, net	38,936,119	29,340,597
Due from related party	—	20,950,105
Other receivables	6,549,100	3,484,051
Board designated funds	<u>41,245,989</u>	<u>34,706,362</u>
	<u><u>\$ 103,167,383</u></u>	<u><u>95,541,118</u></u>

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Certain board-designated and donor-restricted assets limited to use are available for general expenditure within one year in the normal course of operations. Other assets limited to use are for donor-restricted purposes and debt service. Additionally, certain board-designated assets are designated for future purposes beyond the next year. However, the board-designated amounts may be made available, if necessary.

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

(5) Fair Value Measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income, or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities Tuality has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within Level 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.

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Fair values of assets measured on a recurring basis at June 30, 2021 are as follows:

	Fair value measurements at reporting date using			
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Short term investments:				
Cash equivalents	\$ 9,359	9,359	—	—
Equity securities	407,434	407,434	—	—
Fixed income securities	207,148	—	207,148	—
Assets whose use is limited board designated funds:				
Cash equivalents	889,924	889,924	—	—
Equity securities	15,617,988	15,617,988	—	—
Fixed income mutual funds	18,421,794	18,421,794	—	—
Under bond indenture:				
Cash equivalents	939	939	—	—
Donor restricted:				
Cash equivalents	149,445	149,445	—	—
Equity securities	6,298,590	6,298,590	—	—
Fixed income securities	3,201,497	—	3,201,497	—
Deferred compensation plan:				
Cash equivalents	551,494	551,494	—	—
Equity securities	1,215,537	1,215,537	—	—
Fixed income securities	1,046,712	1,046,712	—	—
	48,017,861	\$ 44,609,216	3,408,645	—
Investments valued at NAV as a practical expedient	6,316,283			
Total	\$ 54,334,144			

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Fair values of assets measured on a recurring basis at June 30, 2020 are as follows:

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Fair value			
Short term investments:				
Cash equivalents	\$ 49,773	49,773	—	—
Equity securities	506,422	506,422	—	—
Fixed income securities	355,394	—	355,394	—
Assets whose use is limited board designated funds:				
Cash equivalents	800,061	800,061	—	—
Equity securities	10,887,496	10,887,496	—	—
Fixed income mutual funds	16,373,306	16,373,306	—	—
Under bond indenture:				
Cash equivalents	948	948	—	—
Donor restricted:				
Cash equivalents	380,651	380,651	—	—
Equity securities	3,907,439	3,907,439	—	—
Fixed income securities	2,717,948	—	2,717,948	—
Deferred compensation plan:				
Cash equivalents	462,001	462,001	—	—
Equity securities	1,018,263	1,018,263	—	—
Fixed income securities	877,497	877,497	—	—
	38,337,199	\$ 35,263,857	3,073,342	—
Investments valued at NAV as a practical expedient	6,500,834			
Total	\$ 44,838,033			

Investments valued using the NAV per share (or its equivalent) as a practical expedient are considered “alternative investments” and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. Tuality values these investments based on the partnerships’ June 30 financial statements. The following table presents the investments valued at NAV per share, redemption frequency (if currently eligible), as the redemption notice period, and excluded from the fair value hierarchy tables above:

		June 30	Redemption frequency	Redemption notice period
	2021	2020		
Limited partnerships	\$ 6,316,283	6,500,834	Monthly to annual	45–185 days

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(6) Community Benefits

Tuality's mission is to provide quality healthcare services and leadership in promoting health improvement to all persons in its service area on a nondiscriminatory basis and without regard to ability to pay. Tuality recognizes that not all individuals possess the ability to purchase essential medical services and that its mission includes serving the community with respect to providing healthcare service and healthcare education. In keeping with its commitment to serve all members of its community, the following are considered in the context of the individual's ability to pay and/or community need:

- Free and/or subsidized care
- Care provided to persons covered by governmental programs at below cost
- Health activities and programs to support the community

These activities include wellness programs, community education programs, health screenings, and special programs for the elderly, handicapped, and medically underserved, and a wide variety of broad community support activities.

Through its hospitals, Tuality provides care to patients covered by governmental programs, such as Medicare and Medicaid, which reimburse at levels below the actual cost to provide this care. The amount of unpaid cost due to inadequate reimbursement under these programs was approximately \$46,080,340 and \$49,846,670 during the years ended June 30, 2021 and 2020, respectively. Tuality also provides additional free or discounted care under its charity care policy. The cost of care provided under Tuality's charity policy was estimated to be \$5,765,404 and \$5,064,641 during the years ended June 30, 2021 and 2020, respectively. The cost of charity care provided is based on Tuality's estimated relationship of cost to charges.

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(7) Net Patient Service Revenue and Patient Receivables

Tuality has agreements with third-party payors that provide for payments to Tuality at amounts different from their established rates. A summary of the payment arrangements with major third-party payors follows:

Management evaluates revenue by nature in the following categories for the year ended June 30, 2021:

Revenue by payor:	
Medicare	\$ 75,839,528
Medicaid	49,067,744
Commercial & Managed Care	100,652,220
Other	<u>1,215,537</u>
	<u>\$ 226,775,029</u>
Revenue by major line of business:	
Inpatient revenue, net	\$ 83,906,761
Outpatient revenue, net	142,868,268
CARES revenue	13,837,254
OHSU support	746,452
Other Revenue	<u>10,901,080</u>
	<u>\$ 252,259,815</u>

(a) Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and defined capital costs related to beneficiaries are paid based on a cost reimbursement methodology. Tuality is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Tuality and audits thereof by the Medicare fiscal intermediary. Tuality's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with Tuality. Tuality's Medicare cost reports have received final settlement notification by the Medicare fiscal intermediary through June 30, 2017.

(b) Medicaid

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

Tuality's Medicaid cost reports have been reviewed by DMAP through June 30, 2017.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

There were no material effects on net patient service revenues for the years ended June 30, 2021 and 2020 due to changes in prior year estimated Medicare and Medicaid settlements.

(c) *Other*

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

(8) **Property and Equipment**

A summary of property and equipment at June 30, 2021 and 2020 follows:

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 8,090,009	8,090,009
Building and fixed equipment	115,655,590	108,955,730
Moveable equipment	98,246,115	96,125,523
Equipment under capital leases	<u>9,666,668</u>	<u>9,666,668</u>
	231,658,382	222,837,930
Less accumulated depreciation and amortization	<u>(180,427,977)</u>	<u>(172,448,222)</u>
	51,230,405	50,389,708
Construction in progress	<u>11,521,946</u>	<u>11,942,728</u>
Property and equipment, net	<u>\$ 62,752,351</u>	<u>62,332,436</u>

(9) **Intangible Assets**

During the year ended September 30, 2009, Tuality exchanged a parcel of land for parking rights in that same location for a period of 50 years. The value of the license of \$1,928,629 is based on the estimated fair value of the transferred land plus cash that was paid as part of the transaction. A gain of \$1,724,200 was recognized on the transaction. Tuality began amortizing the license over the 50-year period once the parking spaces became available in August 2010.

Intangibles and accumulated amortization at June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Parking license	\$ 1,928,629	1,928,629
Noncompete covenant and other	<u>380,500</u>	<u>380,500</u>
	2,309,129	2,309,129
Less accumulated amortization	<u>(758,970)</u>	<u>(698,794)</u>
	<u>\$ 1,550,159</u>	<u>1,610,335</u>

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Amortization expense related to intangible assets was \$60,176 for the years ended June 30, 2021 and 2020.

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

2022	\$	54,675
2023		54,675
2024		46,649
2025		38,625
2026		38,625

(10) Long-Term Debt

Hospital Revenue Refunding Bond, Series 2015, amounting to \$16,125,000, was issued by the Hospital Facility Authority of Hillsboro, Oregon (The Authority) to fund an irrevocable trust to defease scheduled principal and interest payments on the Hospital Revenue Bonds, Series 2001. These bonds were issued as private placement with a single financial institution for the life of the bond. Funds were also provided for bond issue costs and establishing a project fund of \$3,578,300 for hospital capital purchases.

Under the terms of the loan agreements created pursuant to these issuances, Tuality Obligated Group (The Obligated Group), which only includes the Tuality Healthcare legal entities, agreed to provide funds sufficient to pay the principal and interest on the bonds as they become due and to pay any expenses of the Trustee. The Obligated Group recorded liabilities in the amount of the bonds payable to reflect these agreements. In order to secure the bonds, the Obligated Group granted security interests in the gross revenue from operations, equipment owned or leased located in Tuality facilities, and on Tuality's real property.

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

Long-term debt at June 30, 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
2015 series bonds, variable annual payments, including principal and interest at a rate of 2.88% from \$1,262,700 to \$1,270,600, beginning October 2016 to October 2031	\$ 11,655,613	12,540,812
Present value of net minimum capital lease obligations	430,562	552,770
Total debt	12,086,175	13,093,582
Less amounts due within one year	(1,051,857)	(1,021,001)
Long term debt, due after one year	<u>\$ 11,034,318</u>	<u>12,072,581</u>

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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

	<u>Long term debt</u>	<u>Capital leases</u>	<u>Total</u>
Fiscal years ending:			
2022	\$ 925,000	126,857	1,051,857
2023	955,000	135,541	1,090,541
2024	980,000	143,453	1,123,453
2025	1,010,000	24,711	1,034,711
2026	1,040,000	—	1,040,000
Thereafter	6,745,613	—	6,745,613
	<u>\$ 11,655,613</u>	<u>430,562</u>	<u>12,086,175</u>

(11) Long-Term Leases

All non-cancelable leases have been categorized as capital or operating leases. Tuality leases equipment and buildings under non-cancelable operating leases, which expire at various dates between March 2021 and 2028.

Minimum future obligations on leases in effect at June 30, 2021 are:

	<u>Capital leases</u>	<u>Operating leases</u>
Fiscal years ending:		
2022	\$ 149,316	4,068,752
2023	149,316	4,030,693
2024	149,316	1,070,104
2025	12,443	540,182
2026	—	302,777
Thereafter	—	2,314,303
Total minimum lease payments	460,391	\$ <u>12,326,811</u>
Less amounts representing interest	<u>29,829</u>	
Present value of net minimum lease payments	<u>\$ 430,562</u>	

Rental expense under non-cancelable operating leases with initial terms of one year or greater was \$3,947,487 and \$3,603,095 for the years ended June 30, 2021 and 2020, respectively.

(12) Retirement Plans

Tuality has a defined-benefit pension plan covering substantially all of its employees. Tuality makes contributions to the plan in amounts sufficient to fund the plan's current service cost and the actuarially

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

computed past service costs over a period of 10 years. In August of 2012, the board of directors approved an amendment to freeze the defined-benefit pension plan effective August 31, 2012. In conjunction with the freeze, the plan is now closed to new entrants and compensation no longer accrues. Current participants who are not yet vested will continue to accrue accumulated years of service for hours worked to become vested if they continue working for Tuality.

Effective September 1, 2012, Tuality established a cash balance retirement plan that covers substantially all of its employees. The plan benefits were based on compensation and years of service. Tuality made annual contributions and interest credits to each employee's account. In February of 2021, the board of directors approved an amendment to freeze this plan effective March 1, 2021. Although interest will still be credited, this ended all future service contributions.

The defined-benefit pension plan and the cash balance retirement plan are collectively "the defined-benefit plans."

Tuality also has a 457(b) salary deferral plan for key executives. Tuality reports assets and liabilities of equal amounts attributable to the amount deferred and the related investment earnings. Tuality's invested assets of deferred compensation consist of mutual funds and fixed income. The balance in the deferred compensation plan at June 30, 2021 and 2020 was \$2,813,743 and \$2,357,761, respectively, and is included in other long-term liabilities in the accompanying consolidated balance sheets.

The following table sets forth the funded status of the defined-benefit plans and amounts recognized in Tuality's consolidated balance sheets as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Change in benefit obligation:		
Projected benefit obligation at July 1	\$ 149,786,977	133,881,500
Service cost	3,070,593	3,950,790
Interest cost	3,945,726	4,599,804
Actuarial (gain)/loss	(3,958,932)	15,368,316
Expenses paid	(1,757,385)	(1,590,599)
Benefits paid	<u>(6,159,050)</u>	<u>(6,422,884)</u>
Projected benefit obligation at June 30	<u>144,927,929</u>	<u>149,786,927</u>
Change in plan assets:		
Fair value of assets at July 1	83,343,131	82,091,949
Actual return on plan assets	20,686,890	171,388
Employer contribution	6,590,277	9,093,277
Expenses paid	(1,757,385)	(1,590,599)
Benefits paid	<u>(6,159,050)</u>	<u>(6,422,884)</u>
Fair value of assets at June 30	<u>102,703,863</u>	<u>83,343,131</u>
Funded status	<u>\$ (42,224,066)</u>	<u>(66,443,796)</u>

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Amounts recognized in the consolidated balance sheets and the statement of changes in net assets as of and for the years ended June 30, 2021 and 2020 consist of:

	<u>2021</u>	<u>2020</u>
Liability for pension benefits	\$ 42,224,066	66,443,796
Pension-related changes	20,815,118	(20,099,148)
Net periodic pension cost	2,578,647	3,648,308

Amounts recognized as changes in net assets without donor restrictions but not yet included in net periodic pension cost as of June 30, 2021 and 2020 consist of:

	<u>2021</u>	<u>2020</u>
Net loss	\$ 65,989,958	87,296,887
Prior service cost	(1,373,560)	(2,472,441)
Total	<u>\$ 64,616,398</u>	<u>84,824,446</u>

The accumulated benefit obligation for the defined-benefit plans was \$144,927,879 and \$149,749,622 at June 30, 2021 and 2020, respectively.

	<u>Year ended June 30</u>	<u>2021</u>	<u>2020</u>
Components of net periodic benefit cost:			
Service cost	\$	3,070,593	3,950,790
Interest cost		3,945,726	4,599,804
Expected return on plan assets		(6,025,664)	(5,773,511)
Amortization of prior service cost		(1,098,847)	(1,098,847)
Amortization of net actuarial gain		2,686,839	1,970,072
Net periodic pension cost	\$	<u>2,578,647</u>	<u>3,648,308</u>

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

The estimated net loss and prior service cost that will be amortized from changes in net assets without donor restrictions into net periodic pension cost over the next fiscal year are \$2,247,887 and \$(1,098,847), respectively.

(a) Assumptions

	June 30	
	2021	2020
Weighted average assumptions used to determine benefit obligations at June 30:		
Discount rate	2.76 %	2.69 %
Weighted average assumptions used to determine net periodic benefit cost for period ended:		
Discount rate	2.69 %	3.51 %
Expected long-term return on plan assets	6.75	6.75

The expected long-term rate of return on plan assets reflected the weighted average expected return for the broad categories of investments currently held in the defined-benefit plans (adjusted for expected changes), based on historical rates of return for each broad category, as well as factors that may constrain or enhance returns in the broad categories in the future.

(b) Plan Assets

Tuality's investment policy is to manage the defined-benefit plans with long-term (five years and more) objectives, with little concern for high current income or the need to maintain ready-cash reserves other than as required for current participant distributions, and with the intent to achieve the highest practicable long-term rate of return without taking excessive risk that could jeopardize the funding policy or cause undue funding volatility. In consideration of this policy, the defined-benefit plans will invest in a variety of asset classes (including short term money-market securities, large-company common stocks, smaller-company common stocks, international common stocks and fixed income securities) and will diversify sufficiently within each asset class or may invest in index funds to minimize the risk of large losses.

Target allocation percentages for each major category of plan assets are as follows:

	Cash balance	Defined benefit
Non-traded alternative	2 %	2 %
Cash	8	11
Equity	47	52
Fixed	20	20
Hedged	23	15
Total	100 %	100 %

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(c) **Cash Flows**

Tuality expects to contribute \$1,848,000 to its pension plans in fiscal year 2022.

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

Fiscal year ending June 30:		
2022	\$	6,582,867
2023		6,182,868
2024		6,393,911
2025		6,556,434
2026		6,612,620
Following five years		35,158,681

The following table presents Tuality's pension plan assets measured at fair value at June 30, 2021:

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Fair value			
Interest bearing cash	\$ 513,221	513,221	—	—
Corporate bonds and debentures	491,029	—	491,029	—
Registered investment companies:				
Fixed income	34,731,433	34,731,433	—	—
Large cap	45,936,834	45,936,834	—	—
Mid cap	2,890,110	2,890,110	—	—
Small cap	7,981,741	7,981,741	—	—
	92,544,368	\$ 92,053,339	491,029	—
Investments valued at NAV as a practical expedient	10,159,495			
Total	\$ 102,703,863			

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

The following table presents Tuality's pension plan assets measured at fair value at June 30, 2020:

		Fair value measurements at reporting date using			
			Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Fair value				
Interest bearing cash	\$ 1,595,489		1,595,489	—	—
Corporate bonds and debentures	668,950		—	668,950	—
Registered investment companies:					
Fixed income	27,829,124		27,829,124	—	—
Large cap	33,083,675		33,083,675	—	—
Mid cap	4,532,284		4,532,284	—	—
Small cap	6,034,637		6,034,637	—	—
	73,744,159	\$	<u>73,075,209</u>	<u>668,950</u>	<u>—</u>
Investments valued at NAV as a practical expedient	9,598,972				
Total	\$ <u>83,343,131</u>				

Investments valued using the NAV per share (or its equivalent) are considered “alternative investments” and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. Tuality values these investments based on the partnerships' June 30 financial statements. The following table presents the investments valued at NAV per share, redemption frequency (if currently eligible), and the redemption notice period, and excluded from the fair value hierarchy tables above:

		June 30		Redemption frequency	Redemption notice period
		2021	2020		
Alternative investments	\$	10,159,495	9,598,972	Quarterly	30-90 Days

(d) Healthcare Performance Retirement Plan

In addition, during 1994, Tuality established the Tuality Healthcare Performance Retirement Plan under which eligible employees may defer a portion of their annual compensation pursuant to Sections 403(b) and 401(k) of the Internal Revenue Code. Tuality matches a portion of employee contributions on a discretionary basis. Tuality made contributions of \$1,621,454 and \$255,144 for the years ended June 30, 2021 and 2020, respectively.

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(13) Functional Expenses

Tuality provides general healthcare services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended June 30, 2021 and 2020:

Year ended June 30, 2021				
	Tuality program service	Tuality Management and general	Affiliated entities	Total
Salaries and wages	\$ 90,119,619	1,585,215	(553)	91,704,281
Employee benefits	22,831,849	435,934	2,743	23,270,526
Supplies and other expense	89,780,415	747,497	2,487,045	93,014,957
Professional fees	31,904,837	42,000	—	31,946,837
Depreciation and amortization	7,156,490	874,168	260,596	8,291,254
Interest	718,534	—	—	718,534
Total	\$ <u>242,511,744</u>	<u>3,684,814</u>	<u>2,749,831</u>	<u>248,946,389</u>

Year ended June 30, 2020				
	Tuality program service	Tuality Management and general	Affiliated entities	Total
Salaries and wages	\$ 86,250,275	2,002,801	373,173	88,626,249
Employee benefits	24,553,594	552,802	158,027	25,264,423
Supplies and other expense	78,653,610	784,003	2,187,428	81,625,041
Professional fees	26,735,870	66,904	—	26,802,774
Depreciation and amortization	7,404,838	822,765	270,476	8,498,079
Interest	781,179	—	—	781,179
Total	\$ <u>224,379,366</u>	<u>4,229,275</u>	<u>2,989,104</u>	<u>231,597,745</u>

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

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(14) Concentrations of Credit Risk

Financial instruments, which potentially subject Tuality to concentrations of credit risk consist of the following:

(a) Cash

Tuality maintains its cash balances at several financial institutions located in Washington County, Oregon. As of June 30, 2021, accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2021, Tuality's uninsured cash balances totaled \$2,983,756.

(b) Patient Receivables

The mix of net patient receivables was as follows at June 30, 2021 and 2020:

	2021	2020
Medicare and Medicare Managed Care	40 %	35 %
Medicaid and Medicaid Managed Care	15	13
Managed Care Plans	39	31
Workers compensation	—	1
Other	6	20
	<u>100 %</u>	<u>100 %</u>

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(15) Commitments and Contingencies

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

Tuality has different insurance arrangements with Mountain States Healthcare Reciprocal Retention Group (MSH) along with other member hospitals. All claims under the MSH policy are subject to a \$25,000 deductible indemnity payment per claim. The limits provided in the primary policy issued by MSH shall be \$1,000,000 per claim and \$3,000,000 annual aggregate for general and hospital professional liability, and \$1,000,000 per claim and \$3,000,000 or \$2,000,000 per claim and \$5,000,000 annual aggregate for physician professional liability. An excess/umbrella insurance program exists for general and hospital professional liability and provides limits in four separate layers and is reinsured by CNA (first excess layer), Zurich (next two excess layers), and Chartis (last excess layer) insurance companies. Each layer provides limits of \$5,000,000 per claim and \$5,000,000 annual aggregate per hospital and \$15,000,000 annual aggregate for all hospitals participating in that layer. Total limits for the hospitals that participate in all four layers are \$20,000,000 per claim, \$20,000,000 annual aggregate per hospital, and \$60,000,000 annual aggregate for all hospitals combined. After January 1, 2011, all four excess layers apply. The insurance is on a claims-made basis.

Effective January 1, 2018 Tuality entered into an insurance program with UMIA. All professional liability and general liability claims under the policy are subject to a \$25,000 deductible indemnity payment per claim. All personal property claims are subject to a \$250 deductible. All Employee Benefits Administration Liability Claims are subject to a \$1,000 deductible. This policy is on a claims-made basis. For stop loss, the claims that Tuality pays (after out of pocket share) are capped per person at \$215K. Any claims paid after \$215K during the year is reimbursed by the stop loss carrier. There is no maximum on the reimbursements.

General and professional liability costs, as well as related expected insurance recoveries, have been accrued based on actuarial determination. The amount accrued, including the tail liability, at June 30, 2021 and 2020 for general and professional liability risks was \$1,902,500 and \$2,148,227, respectively, and is recorded in long-term liabilities. The related insurance receivable at June 30, 2021 and 2020 was \$1,306,500 and \$1,378,500, respectively and recorded in other receivables-non current.

Tuality has an employee medical benefit plan to self-insure claims. This self-insured medical benefit plan operates on a calendar year basis and is administered by a third-party administrator. Tuality has entered into a stop-loss insurance arrangement in an effort to limit its exposure. Tuality and its covered employee dependents contribute to the fund to pay medical claims and reinsurance premiums. At June 30, 2021 and 2020, management has made provisions which it believes to be sufficient to cover estimated claims, including claims incurred but not yet reported. The total of this expected liability, inclusive of deductibles, is \$1,590,037 as of June 30, 2021, and \$1,522,422 as of June 30, 2020.

SUPPLEMENTARY INFORMATION

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Balance Sheet Information

June 30, 2021 and 2020

Assets	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated	
							June 30, 2021	June 30, 2020
Current assets:								
Cash and cash equivalents	\$ 12,191,373	1,008,990	14,569	2,597,302	15,812,234	—	15,812,234	6,148,414
Short-term investments	—	—	—	623,941	623,941	—	623,941	911,589
Patient accounts receivable	38,387,037	549,082	—	—	38,936,119	—	38,936,119	30,745,775
Allowance for uncollectible accounts	—	—	—	—	—	—	—	(1,405,178)
Due from related party	—	—	—	—	—	—	—	20,950,105
Other receivables	6,430,090	—	2,814	116,196	6,549,100	—	6,549,100	3,484,051
Inventory of supplies	4,312,113	590,400	—	—	4,902,513	—	4,902,513	3,842,062
Prepaid expenses and other	2,387,624	9,511	44,590	—	2,441,725	—	2,441,725	2,152,604
Assets whose use is limited:								
Required for current liabilities	1,010,068	—	—	—	1,010,068	—	1,010,068	991,582
Due from subsidiaries	3,669,157	156,936	10,026,244	94,377	13,946,714	(13,946,714)	—	—
Total current assets	68,387,462	2,314,919	10,088,217	3,431,816	84,222,414	(13,946,714)	70,275,700	67,821,004
Assets whose use is limited:								
Board-designated funds	41,245,989	—	—	—	41,245,989	—	41,245,989	34,706,362
Under bond indenture agreement – held by Trustee	939	—	—	—	939	—	939	948
Donor-restricted – specific purpose	—	—	—	6,888,186	6,888,186	—	6,888,186	4,049,056
Donor-restricted – endowment	—	—	—	2,761,346	2,761,346	—	2,761,346	2,812,317
Less amount required for current liabilities	(1,010,068)	—	—	—	(1,010,068)	—	(1,010,068)	(991,582)
Total assets whose use is limited	40,236,860	—	—	9,649,532	49,886,392	—	49,886,392	40,577,101
Property and equipment:								
Property and equipment	222,099,166	162,259	20,918,903	—	243,180,328	—	243,180,328	234,780,658
Accumulated depreciation and amortization	(164,725,660)	(136,638)	(15,565,679)	—	(180,427,977)	—	(180,427,977)	(172,448,222)
Total property and equipment	57,373,506	25,621	5,353,224	—	62,752,351	—	62,752,351	62,332,436
Other assets:								
Other receivables – noncurrent	1,306,500	—	—	—	1,306,500	—	1,306,500	1,378,500
Investments in subsidiaries	18,454,970	—	—	—	18,454,970	(18,454,970)	—	—
Investments in unconsolidated affiliates	1,104,376	—	—	—	1,104,376	—	1,104,376	1,520,876
Deferred compensation plan	2,813,743	—	—	—	2,813,743	—	2,813,743	2,357,761
Cash value of life insurance	727,382	—	—	—	727,382	—	727,382	564,934
Deferred costs and other	230,187	—	—	—	230,187	—	230,187	230,187
Intangible assets	40,125	—	1,510,034	—	1,550,159	—	1,550,159	1,610,335
Goodwill	318,500	—	—	—	318,500	—	318,500	318,500
Total other assets	24,995,783	—	1,510,034	—	26,505,817	(18,454,970)	8,050,847	7,981,093
Total assets	\$ 190,993,611	2,340,540	16,951,475	13,081,348	223,366,974	(32,401,684)	190,965,290	178,711,634

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Balance Sheet Information

June 30, 2021 and 2020

Liabilities and Net Assets	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated	
							June 30, 2021	June 30, 2020
Current liabilities:								
Accounts payable	\$ 24,872,194	1,174,447	520,888	2,512,351	29,079,880	(13,946,714)	15,133,166	14,762,403
Due to related party	2,007,205	—	—	—	2,007,205	—	2,007,205	—
Accrued payroll and employee benefits	13,476,435	—	—	—	13,476,435	—	13,476,435	12,863,734
Deferred Revenue COVID CARES	13,106,758	—	—	—	13,106,758	—	13,106,758	16,590,355
Estimated liabilities for Medicare and Medicaid settlements	423,170	—	—	—	423,170	—	423,170	450,057
Long-term debt due within one year	1,051,857	—	—	—	1,051,857	—	1,051,857	1,021,001
Accrued bond interest payable	85,068	—	—	—	85,068	—	85,068	91,582
Total current liabilities	55,022,687	1,174,447	520,888	2,512,351	59,230,373	(13,946,714)	45,283,659	45,779,132
Long-term liabilities:								
Long-term debt, net of amount due within one year	11,034,318	—	—	—	11,034,318	—	11,034,318	12,072,581
Liability for pension benefits	42,224,066	—	—	—	42,224,066	—	42,224,066	66,443,796
Other long-term liabilities	26,093,296	—	—	—	26,093,296	—	26,093,296	23,884,941
Total long-term liabilities	79,351,680	—	—	—	79,351,680	—	79,351,680	102,401,318
Total liabilities	134,374,367	1,174,447	520,888	2,512,351	138,582,053	(13,946,714)	124,635,339	148,180,450
Net assets:								
Net assets without donor restrictions	56,619,244	1,166,093	16,430,587	799,265	75,015,189	(18,439,453)	56,575,736	23,264,972
Net assets with donor restrictions	—	—	—	9,769,732	9,769,732	(15,517)	9,754,215	7,266,212
Total net assets	56,619,244	1,166,093	16,430,587	10,568,997	84,784,921	(18,454,970)	66,329,951	30,531,184
Total liabilities and net assets	\$ 190,993,611	2,340,540	16,951,475	13,081,348	223,366,974	(32,401,684)	190,965,290	178,711,634

See accompanying independent auditors' report.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Operations

Years ended June 30, 2021 and 2020

	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated	
							June 30, 2021	June 30, 2020
Net patient service revenue	\$ 224,946,084	1,828,945	—	—	226,775,029	—	226,775,029	194,143,768
OHSU support	746,452	—	—	—	746,452	—	746,452	25,321,427
Other revenue	24,924,027	180,399	2,919,426	19,976	28,043,828	(3,305,494)	24,738,334	11,792,946
Total revenue	250,616,563	2,009,344	2,919,426	19,976	255,565,309	(3,305,494)	252,259,815	231,258,141
Operating expenses:								
Salaries and wages	91,704,834	(553)	—	—	91,704,281	—	91,704,281	88,626,249
Employee benefits	23,267,783	2,743	—	—	23,270,526	—	23,270,526	25,264,423
Supplies and other expenses	93,300,705	1,987,132	494,856	5,057	95,787,750	(2,772,793)	93,014,957	81,625,041
Professional fees	31,946,837	—	—	—	31,946,837	—	31,946,837	26,802,774
Management fees	—	—	532,701	—	532,701	(532,701)	—	—
Depreciation and amortization	8,030,658	23,091	237,505	—	8,291,254	—	8,291,254	8,498,079
Interest	718,534	—	—	—	718,534	—	718,534	781,179
Total operating expenses	248,969,351	2,012,413	1,265,062	5,057	252,251,883	(3,305,494)	248,946,389	231,597,745
(Loss) income from operations	1,647,212	(3,069)	1,654,364	14,919	3,313,426	—	3,313,426	(339,604)
Other income:								
Other operating revenue (expenses)	—	—	—	—	—	—	—	302,482
Realized income on investments whose use is limited by board designation	221,574	—	—	—	221,574	—	221,574	1,060,462
Change on unrealized gains (losses) on investments	6,030,817	—	—	102,106	6,132,923	—	6,132,923	(317,369)
Gain (loss) on investments in affiliated companies	2,345,501	—	—	(42,105)	2,303,396	—	2,303,396	3,241,541
Gain on disposal of property and equipment	17,900	—	—	—	17,900	—	17,900	(35,493)
Other nonoperating expenses	—	—	—	—	—	—	—	—
Total other income	8,615,792	—	—	60,001	8,675,793	—	8,675,793	4,251,623
Revenue in excess of expenses	10,263,004	(3,069)	1,654,364	74,920	11,989,219	—	11,989,219	3,912,019
Contributions for property and equipment acquisition	—	—	—	—	—	—	—	909,425
Change in net unrealized gains (losses) on other than trading securities	506,427	—	—	—	506,427	—	506,427	—
Pension-related changes	20,815,118	—	—	—	20,815,118	—	20,815,118	(20,099,148)
Increase (decrease) in net assets without donor restrictions	\$ 31,584,549	(3,069)	1,654,364	74,920	33,310,764	—	33,310,764	(15,277,704)

See accompanying independent auditors' report.