KPMG

SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Financial Statements and Supplemental Schedules

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

SALEM HEALTH HOSPITALS AND CLINICS

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

Independent Auditors' Report

The Board of Trustees
Salem Health Hospitals and Clinics:

We have audited the accompanying consolidated financial statements of Salem Health Hospitals and Clinics and its subsidiaries, which comprise the consolidated balance sheets as of June 30, 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 Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Salem Health Hospitals and Clinics and its subsidiaries as of June 30, 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 basic consolidated financial statements as whole. The lean initiatives footnote included in note 15 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The supplementary consolidating information included in schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

Portland, Oregon
October 8, 2021

SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Balance Sheets

June 30, 2021 and 2020

(In thousands)

Assets		**2021**	**2020**
Current assets:			
Cash and cash equivalents	$	36,034	45,400
Patient accounts receivable, less reserves for price concessions		123,560	99,546
Other receivables		18,552	16,692
Supplies inventory		9,692	8,874
Prepaid expenses and other		13,818	10,028
Total current assets		201,656	180,540
Investments		1,141,819	1,046,065
Property and equipment, net		607,469	525,382
Rental and other property held for future development, net of accumulated depreciation of $4,627 in 2021 and $4,178 in 2020		62,324	52,321
Investments in health related entities		21,980	21,635
Other noncurrent assets		15,821	16,312
Total assets	$	2,051,069	1,842,255
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	76,335	51,819
Accrued liabilities:			
Payroll, payroll taxes, and withholdings		33,175	21,731
Paid time off		26,661	23,241
Other		15,005	76,133
Estimated third-party payor settlements, net		10,584	5,825
Current portion of long-term debt		11,909	11,595
Current portion of estimated professional liability		2,218	1,775
Total current liabilities		175,887	192,119
Long-term debt, net of current portion		496,928	508,783
Accrued postretirement healthcare benefits		3,216	6,204
Other long-term liabilities		7,152	10,960
Estimated professional liability, net of current portion		10,129	8,289
Total liabilities		693,312	726,355
Net assets:			
Without donor restrictions		1,350,036	1,108,368
With donor restrictions		7,721	7,532
Total net assets		1,357,757	1,115,900
Total liabilities and net assets	$	2,051,069	1,842,255

See accompanying notes to consolidated financial statements.

SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Statements of Operations

Years ended June 30, 2021 and 2020

(In thousands)

	2021	2020
Operating revenue:		
Net patient service revenue	$ 909,024	803,343
Other revenue	44,174	60,799
Net assets released from donor restriction used for operations	193	353
Total operating revenues	953,391	864,495
Operating expenses:		
Labor and benefits	542,072	501,101
Medical and other supplies	132,405	117,421
Purchased services and other	123,598	119,175
Depreciation	50,863	49,671
Professional fees	19,734	22,689
Interest and amortization	12,713	12,066
Total operating expenses	881,385	822,123
Excess of revenue over expenses from operations	72,006	42,372
Other income (expense):		
Investment income, net	173,371	38,240
Loss on bond refunding	—	(8,660)
Loss (gain) on disposal of property and equipment	172	(1,456)
Other, net	(6,342)	(4,572)
Total other income, net	167,201	23,552
Excess of revenue over expenses	239,207	65,924
Change in net unrealized gain or loss on fixed income investments	(361)	598
Change in postretirement benefit obligation	2,682	414
Net assets released from donor restriction used for property and equipment	140	17
Change in fair value of interest rate swap agreement	—	(837)
Reclassification of interest rate swap upon termination	—	8,957
Change in net assets without donor restrictions	$ 241,668	75,073

See accompanying notes to consolidated financial statements.

SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2021 and 2020

(In thousands)

	Without donor restrictions	With donor restrictions	Total
Net assets at June 30, 2019	$ 1,033,295	6,071	1,039,366
Excess of revenue over expenses	65,924	—	65,924
Change in fair value of interest rate swap agreement	(837)	—	(837)
Reclassification of interest rate swap upon termination	8,957	—	8,957
Change in net unrealized gain on other-than-trading securities	598	—	598
Change in postretirement benefit obligation	414	—	414
Net assets released from restriction used for property and equipment	17	(17)	—
Contributions with donor restrictions	—	1,832	1,832
Donor restricted investment and other income, net	—	(1)	(1)
Net assets released from restrictions for operations	—	(353)	(353)
Change in net assets	75,073	1,461	76,534
Net assets at June 30, 2020	1,108,368	7,532	1,115,900
Excess of revenue over expenses	239,207	—	239,207
Change in fair value of interest rate swap agreement	—	—	—
Reclassification of interest rate swap upon termination	—	—	—
Change in net unrealized gain on other-than-trading securities	(361)		(361)
Change in postretirement benefit obligation	2,682	—	2,682
Net assets released from restriction used for property and equipment	140	(140)	—
Contributions with donor restrictions	—	305	305
Donor restricted investment and other income, net	—	217	217
Net assets released from restrictions for operations	—	(193)	(193)
Change in net assets	241,668	189	241,857
Net assets at June 30, 2021	$ 1,350,036	7,721	1,357,757

See accompanying notes to consolidated financial statements.

SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Statements of Cash Flows

Years ended June 30, 2021 and 2020

(In thousands)

		2021	2020
Cash flows from operating activities:			
Change in net assets	$	241,857	76,534
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		48,456	48,041
Change in net unrealized gains on investments and realized gains on sales of investments		(158,763)	(21,655)
Change in fair value of interest rate swap agreement		—	837
Cash collections on contributions for long-term purposes		(188)	(1,450)
Non-cash increase in net assets from bond refunding		—	(298)
(Gain) Loss on disposal of property and equipment		(172)	1,456
Equity income on joint venture		(2,671)	(2,396)
Equity distributions from joint venture		2,937	1,980
Changes in operating assets and liabilities:			
Patient accounts receivable		(24,014)	1,957
Other receivables		(1,833)	458
Supplies inventory		(817)	(700)
Prepaid expenses		(3,790)	(1,077)
Other noncurrent assets		(120)	(650)
Accounts payable		14,105	(3,345)
Accrued liabilities		(46,263)	73,797
Estimated third-party payor settlements, net		4,759	2,821
Accrued postretirement healthcare benefits		(2,987)	(774)
Other long-term liabilities		447	(3,805)
Estimated professional liability		2,283	93
Net cash provided by operating activities		73,226	171,824
Cash flows from investing activities:			
Purchases of investments		(427,005)	(424,986)
Investment in healthcare related ventures		—	(10,197)
Proceeds from sales of investments		490,013	141,227
Proceeds from sales of property, rental, and other		1,138	3,715
Purchases of property and equipment and rental and other property		(138,310)	(81,334)
Net cash used in investing activities		(74,164)	(371,575)
Cash flows from financing activities:			
Proceeds from issuance of tax-exempt bonds		—	321,418
Proceeds from line of credit		—	20,000
Repayment of long-term debt		(7,735)	(78,625)
Repayment of line of credit borrowings		—	(20,000)
Payment of deferred financing costs		—	(2,119)
Settlement of interest rate swap		—	(12,520)
Restricted contributions for long-term purposes		188	1,450
Payment of principal on long-term debt (non-bond)		(881)	—
Net cash used in financing activities		(8,428)	229,604
Net increase (decrease) in cash and cash equivalents		(9,366)	29,853
Cash and cash equivalents at beginning of year		45,400	15,547
Cash and cash equivalents at end of year	$	36,034	45,400
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of amounts capitalized	$	12,766	10,732
Increase in construction related payables		10,403	13,806

See accompanying notes to consolidated financial statements.

(1) Organization, Principles of Consolidation, and Operations

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

The accompanying consolidated financial statements include the accounts and transactions of the Corporation and its subsidiaries, of which Salem Health Hospitals and Clinics is the parent holding company and sole member. The subsidiaries consist of Salem Health (Salem) and Salem Health West Valley (West Valley) (collectively, the Hospitals); Salem Health Foundation (SHF) and West Valley Hospital Foundation (WVHF) (collectively, the Foundations); Willamette Valley Insurance Corporation (WVIC), a captive insurance company domiciled in Hawaii; and Salem Health Professional Services (SHPS), whose principal purpose is to provide professional billing services to the Hospitals. All significant intercompany accounts and transactions have been eliminated in consolidation. The Corporation has formed an obligated group that is responsible for paying hospital revenue bond debt. As of June 30, 2021, the parent holding company Salem Health Hospitals and Clinics was added to the obligated group which previously only included Salem as a member.

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

COVID-19 Pandemic and CARES Act Funding

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020 and authorized $100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the Fund). Payments from the Fund 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 the funding to reimburse expenses or losses that other sources are obligated to reimburse. During the years ended June 30, 2021 and 2020, the Corporation recognized payments of $7,944 and $17,387 from the Fund, respectively. The entire amount was recognized as other operating revenue in each year.

To increase cash flow to Medicare providers, the CARES Act also expanded the Medicare Accelerated and Advance Payment Program. 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. The Corporation received $61,400 in the year ended June 30, 2020 and the entire amount was repaid during the year ended June 30, 2021.

Under U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect reported amounts. Accordingly, the impact of COVID-19 has increased uncertainty associated with several of the assumptions underlying management's estimates. COVID-19's overall impact on the Corporation will be driven primarily by the severity and duration of the pandemic; the pandemic's impact on the U.S. economy; and the timing, scope, and effectiveness of federal, state, and local governmental responses to the pandemic. Those primary drivers are uncertain and beyond management's control and may adversely impact the Corporation's business. The actual impact of COVID-19 on the Corporation's consolidated financial statements may differ significantly from the judgments and estimates made as of the year ended June 30, 2021.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

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

(b) Cash and Cash Equivalents

Cash equivalents include investments in highly liquid instruments with original maturities of three months or less, excluding assets limited as to use. Cash equivalents totaled $534 and $1,002 at June 30, 2021 and 2020, respectively; cash equivalents exclude those balances held as part of the investment portfolio.

The Corporation maintains bank accounts at several financial institutions. The Corporation's bank balances at each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250. At June 30, 2021 and 2020, the Corporation's bank balances at certain financial institutions exceeded FDIC coverage.

(c) Patient Accounts Receivable and Net Patient Service Revenue

Patient accounts receivable are recorded at an estimated collectible amount and do not bear interest. Explicit price concessions are established as a result of negotiated reimbursement methodologies with third party payors.

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

During the fourth quarter of fiscal 2020, the Corporation requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. Such amounts were included in other accrued liabilities in the consolidated financial statements as of June 30, 2020.

Recoupment of the accelerated payments began one year from when the payment was issued. The advance payments are required to be repaid in full 29 months from the date of the first accelerated payment. In March of fiscal year 2021, the Corporation returned the advance Medicare payments in full, which amounted to approximately $61,445.

(In thousands)

The mix of net patient receivables from significant third-party payors as of June 30, 2021 and 2020 was as follows:

	June 30, 2021		
Medicare	31 %	$	38,844
Medicaid	12		14,217
Self pay	—		508
Commercial and other payors	57		69,991
Total	100 %	$	123,560

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

The mix of net patient service revenue from significant third-party payors for the years ended June 30, 2021 and 2020 was as follows:

	Year ended June 30, 2021		
Medicare	36 %	$	331,610
Medicaid	17		150,120
Self pay	1		5,556
Commercial and other payors	46		421,738
Total	100 %	$	909,024

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

(Continued)

(In thousands)

The following tables represent net patient service revenue by line of business in the years ending June 30, 2021 and 2020, respectively:

	Year ended June 30, 2021			
	Inpatient	**Outpatient**	**Clinics**	**Total**
Net patient service revenue $	485,754	361,071	62,199	909,024

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

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

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

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

The Medicare program reimburses Salem at prospectively determined rates for the majority of inpatient and outpatient services rendered to patients, primarily on the basis of Medicare severity diagnosis–related groups and Ambulatory Payment Classification Groups, respectively. West Valley is a "critical access hospital" (CAH) for Medicare and Medicaid program purposes. As a CAH, West Valley may not operate more than 25 beds and the average length of stay for acute care patients may not exceed 96 hours. The Medicare and Medicaid programs reimburse West Valley on the basis of its current allowable costs. When paid under cost reimbursement, the Hospitals are reimbursed at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the fiscal intermediaries, subjecting the Hospitals to retroactive settlements for prior year cost reports. Actual settlements historically approximated management's expectations.

(Continued)

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

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

(d) Supplies Inventory

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

(e) Investments

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

Investments in equity and debt securities are reported at fair value in the accompanying consolidated balance sheets. The fair values are based on quoted market prices at the reporting date for those or similar investments. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on equity investments, interest, and dividends) is included in the excess of revenue over expenses unless the income or loss is restricted by the donor or law. The Corporation's debt investments are classified as other-than-trading securities at June 30, 2021 and 2020. Unrealized gains and losses on other-than-trading debt investments are excluded from excess of revenue over expenses unless they are considered other-than-temporarily impaired.

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

For debt securities that the Corporation does intend to sell or is more likely than not to be required to sell prior to recovery of the cost basis, the Corporation recognizes other-than-temporary losses in accordance with the provisions of the ASC Topic 320 *Investments – Debt and Equity Securities*. The amount of the other-than-temporary loss is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between a security's cost basis and the present value of expected future

(Continued)

cash flows discounted at the security's effective interest rate. The amount due to all other factors is recognized in other changes in net assets. For the year ended June 30, 2021 or 2020, the Corporation recognized no other-than-temporary losses.

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

(f) Property and Equipment

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

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

(g) Long-Lived Assets

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

(h) Investments in Health Related Entities

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

Corporation records its proportionate share of the investee's income or loss in the consolidated statements of operations and records distributions received from the investee as a reduction in the related investment balance.

(i) Net Assets With Donor Restrictions

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

(j) Consolidated Statements of Operations

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

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

(k) Contributions Received

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

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

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

(l) Income Taxes

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

Accounting principles generally accepted in the United States of America require the Corporation to evaluate tax positions taken by the Corporation and recognize a tax liability (or an asset) if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the Corporation and has concluded that as of June 30, 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. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Corporation's management believes it is no longer subject to income tax examinations for years prior to fiscal year 2018.

(m) State of Oregon Provider Tax

Effective July 1, 2004, the state of Oregon instituted a provider tax on certain qualifying hospitals. The Corporation recorded provider taxes of $50,300 and $44,878 for the years ended June 30, 2021 and 2020, respectively, which are included in purchased services and other expense in the accompanying consolidated statements of operations. In addition, the Corporation has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments owed to the Corporation related to beneficiaries of the Oregon Department of Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to the Corporation. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to qualifying hospitals on a quarterly basis. The Corporation received $49,746 and $44,602 for the years ended June 30, 2021 and 2020, respectively, from OAHHS, which are reflected as a component of net patient service revenue in the accompanying consolidated statements of operations.

(Continued)

(In thousands)

(3) Benefits to the Community

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

(a) Services for People in Need

The following tables represent the estimated cost of providing certain services to the community, where the related revenues do not fully cover cost of services along with a description of selected activities sponsored by the Hospitals during 2021 and 2020:

		Year ended June 30, 2021		
		Estimated costs to provide care	**Offsetting revenue**	**Estimated net cost**
Services for people in need:				
Charity care	$	21,551	—	21,551
Medicaid		207,713	149,877	57,836
Medicare		397,290	346,364	50,926
	$	626,554	496,241	130,313
Percentage of total operating expenses				14.8 %

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

In support of its mission, the Hospitals voluntarily provide medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care are determined based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, the Hospitals provide an uninsured discount of 35% to all uninsured patients. Further discounts are available for patients, on a sliding scale, whose household income is less than 400% of the federal poverty level, or roughly $106 for a family of four in Salem, Oregon. For patients whose household income is at or below 300% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, the patients' qualified assets (e.g., assets and investments excluding patient's primary residence) and other catastrophic or economic circumstances are considered in determining eligibility for charity care.

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

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

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

(b) Benefits to Community

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

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

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

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

(c) Other Benefits

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

(In thousands)

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

(4) Liquidity and Availability

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

		2021	2020
Financial assets at year end:			
Cash and cash equivalents	$	36,034	45,400
Patient accounts receivable, less reserves for price concessions		123,560	99,546
Other receivables		18,552	16,692
Investments		1,141,819	1,046,065
Total financial assets		1,319,965	1,207,703
Less amounts not available to be used within one year:			
Funds held by Trustees		109,905	202,532
Donor-restricted endowed funds		2,277	2,277
Financial assets not available to meet general expenditures within one year		112,182	204,809
Financial assets available to meet general expenditures within one year	$	1,207,783	1,002,894

As part of the Corporation’s liquidity management plan, cash reserves of no less than 10 days of operating expenses plus known capital expenditures are held in a liquidity pool. As of June 30, 2021 and 2020, the amount was $30,855 and $100,000, respectively.

(In thousands)

(5) Investments

The composition of investments as of June 30, 2021 and 2020 is set forth in the following table. The following breakout indicates management's methodology for managing its investment portfolio. Investments are carried at fair value.

		2021	2020
Internally designated for operating and capital expenditures:			
Cash equivalents	$	32,514	101,402
Common stocks and equity mutual funds		545,563	384,542
Fixed-income mutual funds		428,512	336,808
Corporate bonds		4,061	5,199
U.S. government agency securities		2,807	2,587
U.S. Treasury securities		9,603	5,945
Total internally designated for operating and capital expenditures		1,023,060	836,483
Held by the Foundations:			
Cash equivalents		157	142
Common stocks and equity mutual funds		6,164	4,432
Fixed-income mutual funds		2,533	2,476
Total held by the Foundations		8,854	7,050
Held by trustee:			
Cash equivalents		109,905	202,532
Total held by trustee		109,905	202,532
Total investments	$	1,141,819	1,046,065

(6) Fair Value Measurements

(a) Fair Value of Financial Instruments

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

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

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

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

(b) Fair Value Hierarchy

FASB ASC Subtopic 820-10, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to measurements involving significant unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

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

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. There was no reclassification of securities between Level 1 and Level 2 during the fiscal year ended June 30, 2021 or 2020. There were no Level 3 securities at June 30, 2021 or 2020.

(In thousands)

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2021 (note that as reflected in the interest rate swap footnote, the swap was terminated in October 2019 and is not reflected in the table below):

		Fair value measurements at reporting date using	
	June 30, 2021	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Assets:			
Cash equivalents	$ 142,576	142,576	—
Common stocks and equity mutual funds	551,727	551,727	—
Corporate bonds	4,061	—	4,061
Fixed-income mutual funds	431,045	431,045	—
U.S. government agency securities	2,807	—	2,807
U.S. Treasury securities	9,603	9,603	—
Total	$ 1,141,819	1,134,951	6,868

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2020:

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

(Continued)

(In thousands)

(7) Property and Equipment, Net

Property and equipment consisted of the following at June 30, 2021 and 2020:

		2021	2020
Land and improvements	$	38,016	38,016
Buildings and improvements		639,550	638,536
Equipment		358,732	346,184
Finance lease right-of-use assets		17,582	17,582
		1,053,880	1,040,318
Less accumulated depreciation		(623,866)	(573,901)
		430,014	466,417
Construction in progress		177,455	58,965
Property and equipment, net	$	607,469	525,382

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. The Corporation capitalized $5,069 and $3,114 in the years ending June 30, 2021 and 2020, respectively.

(8) Investments in Health-Related Activities

The following is a summary of the Corporation’s related-party investments which are included in other noncurrent assets in the accompanying consolidated balance sheets at June 30, 2021 and 2020:

			Investment balance included in the accompanying consolidated balance sheets as of June 30, 2021 and 2020		The corporation’s share of income (losses) included in the accompanying consolidated statements of operations for the fiscal years ended June 30, 2021 and 2020	
Entity	**Basis of accounting**		**2021**	**2020**	**2021**	**2020**
WVCH	Equity method	$	780	545	235	—
SOSC	Equity method		175	51	(386)	—
WSC	Equity method		21,025	21,039	2,822	2,396
		$	21,980	21,635	2,671	2,396

(a) Willamette Surgery Center, LLC

Willamette Surgery Center, LLC (WSC) is a limited liability company whose members are the Corporation and community physician partners. Equity is allocated 54.2% and 45.8%, respectively, although voting rights are allocated 42.9% and 57.1%, respectively, to the Corporation and the community physician partners. As a result, the Corporation accounts for the investment under the equity method of accounting. WSC operates and manages an outpatient orthopedic surgery center located in Salem, Oregon. The Corporation made an initial investment of $20,000 in WSC during the year ended June 30, 2019. The Corporation received member distributions of $2,937 and $1,980 in the years ending June 30, 2021 and 2020, respectively.

(b) Willamette Valley Community Health

The Corporation, on behalf of the Hospitals, cofounded Willamette Valley Community Health (WVCH) with nine other providers of healthcare in Marion and Polk Counties. WVCH is an Oregon limited liability company and is certified by the Oregon Health Authority as a coordinated care organization (CCO). Section 26 of house bill 3650 provides that CCOs will be responsible for providing fully integrated physical health services, chemical dependency and mental health services, and dental health services. CCOs provide the foregoing health services to Medicaid beneficiaries. WVCH ceased operations as of January 1, 2020 and the entity is being wound down as of June 30, 2021. As a result, the Corporation is accounting for the remaining interest in WVCH under the equity method of accounting.

(c) The Salem Ambulatory Surgery Center, LLC

The Salem Ambulatory Surgery Center, LLC dba Salem Outpatient Surgery Center (SOSC) is a limited liability company whose members are the Corporation and various community physician partners Equity is allocated 51.0% and 49.0%, respectively, although voting rights are allocated 44.5% and 55.5%, respectively, to the Corporation and the community physician partners. As a result, the Corporation accounts for the investment under the equity method of accounting. SOSC was formed to own, operate, and manage an outpatient surgery center to be located in Salem, Oregon. As of June 30, 2021 the surgery center is still in the pre-operation phase.

(In thousands)

(9) Long-Term Debt

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

		2021	2020
Hospital Revenue Bonds, Series 2016A; payable in installments from \$2,010 to \$15,490 beginning in 2017 through 2046; interest at rates ranging from 2.00% to 5.00%	$	179,180	181,190
Hospital Revenue Bonds, Series 2019A; payable in installments from \$5,725 to \$14,710 beginning in 2020 through 2049; interest at rates ranging from 3.00% to 5.00%		272,465	278,190
Finance lease liability (a)		8,309	9,177
Unamortized cost of issuance		(1,422)	(1,476)
Unamortized premium on bonds, net		50,305	53,284
Other		—	13
		508,837	520,378
Less current portion		(11,909)	(11,595)
	$	496,928	508,783

(a) The interest rate on the lease financing obligation was 1.96% at June 30, 2021. For more information on our lease financing obligations, see Note 13, Leases.

The Obligated Group is required to satisfy certain measures of financial performance as long as the bonds are outstanding under the Master Trust Indenture.

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

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

Salem Health may borrow up to \$100,000 under its line of credit agreement. There were no outstanding borrowings against the line at June 30, 2021 and 2020, respectively.

(In thousands)

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

		Revenue bonds
2022	$	8,100
2023		8,445
2024		8,870
2025		9,310
2026		9,710
Thereafter		407,210
	$	451,645

(10) Net Assets with Donor Restrictions

Net assets were restricted for the following purposes at June 30, 2021 and 2020:

		2021	2020
Subject to expenditure for specified purpose:			
Acquisition or construction of property and equipment for the hospitals	$	2,268	1,803
Specific programs of the hospitals		2,464	2,803
Scholarships		332	340
Other		380	309
		5,444	5,255
Donor-restricted endowed funds:			
Acquisition or construction of property and equipment for the hospitals		1,091	1,091
Specific programs of the hospitals		538	538
Scholarships		357	357
Other		291	291
		2,277	2,277
Total donor restricted net assets	$	7,721	7,532

(Continued)

(11) Retirement and Postretirement Plans

(a) Defined-Contribution Retirement Plan

The Hospitals have a contributory, defined-contribution retirement plan (the Retirement Plan) covering substantially all full-time employees. All eligible employees are allowed to contribute to the Retirement Plan on the first day of the month following their date of hire. The Hospitals contribute 5.5% to 8.5% of participating employees' annual compensation to the Retirement Plan. To receive the benefit of the Hospitals' contributions, employees must have one year or more of service at one of the Hospitals and contribute at least 1.0% of their annual compensation to the Retirement Plan. The Retirement Plan's costs were $23,975 and $21,018 for the fiscal years ended June 30, 2021 and 2020, respectively, and are included in labor and benefits in the accompanying consolidated statements of operations.

(b) Postretirement Healthcare Plan

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

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

(Continued)

(In thousands)

The accrued liability for postretirement benefits at June 30, 2021 and 2020 was as follows:

		2021	2020
Change in benefit obligation:			
Benefit obligation at beginning of year	$	6,774	7,527
Service cost		—	30
Interest cost		72	180
Participants’ contributions		570	472
Actuarial gain		(2,682)	(414)
Benefits paid		(1,140)	(1,021)
Benefit obligation at end of year	$	3,594	6,774
Change in plan assets:			
Fair value of plan assets at beginning of year	$	—	—
The Hospitals’ contributions		570	549
Participants’ contributions		570	472
Benefits paid		(1,140)	(1,021)
Fair value of plan assets at end of year	$	—	—

A reconciliation of the Postretirement Plan’s funded status at June 30, 2021 and 2020 and to the Hospitals’ accrued postretirement healthcare benefits at June 30, 2021 and 2020 was as follows:

		2021	2020
Funded status	$	3,594	6,774
Current portion of accrued postretirement healthcare benefits		(378)	(570)
Long-term portion of accrued postretirement healthcare benefits	$	3,216	6,204

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

The service cost component of the Hospitals’ net periodic postretirement benefit cost included in labor and benefits and the other components of the Hospitals’ net periodic postretirement benefit cost included in other, net in the accompanying consolidated statements of operations for the fiscal years ended June 30, 2021 and 2020 were as follows:

(In thousands)

		12 months ended June 30	
		2021	**2020**
Service cost	$	—	30
Interest cost		72	180
Net periodic postretirement benefit cost	$	72	210

Losses (gains) accumulated in net assets without donor restrictions in the accompanying consolidated statements of changes in net assets through the fiscal years ended June 30, 2021 and 2020 were ($2,458) and $223, respectively. The components of the Hospitals' other changes in plan assets and benefit obligations recognized in net assets without donor restrictions in the accompanying consolidated statements of changes in net assets for the fiscal years ended June 30, 2021 and 2020 were as follows:

		12 months ended June 30	
		2021	**2020**
Net (gain) loss	$	(2,682)	(414)
Amortization of net loss		—	—
Total recognized in net assets without donor restrictions	$	(2,682)	(414)

Weighted average assumptions used to determine benefit obligations for June 30, 2021 and 2020 were as follows:

	2021	**2020**
Discount rate	1.30 %	1.11 %
Rate of compensation increase	3.75	3.75

For actuarial measurement purposes, annual rate increases in the per capita cost of covered healthcare benefits of 7.00% (pre-65) and 5.40% (post-65) were assumed for 2020 through 2021. Thereafter, the rate was assumed to decrease by approximately 0.50% percentage point on an annual basis to 5.18% in 2030 and then decrease gradually to 4.04%. For the fiscal year ended June 30, 2021, the Corporation utilized the PRI-2012 total dataset Mortality Table with the RP-2020 Mortality Improvement Scale for estimating the actuarial values. For the fiscal year ended June 30, 2020, the Corporation utilized the RP-2014 Mortality Table with the RP-2019 Mortality Improvement Scale for estimating the actuarial values.

(Continued)

(In thousands)

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

2022	$	378
2023		412
2024		459
2025		494
2026		548
2027–2031		1,428

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

(12) Leases

The Corporation leases medical and administrative office buildings and equipment to support operations. The operating and finance leases are reflected within the consolidated balance sheets as follows at June 30, 2021 and 2020:

		June 30, 2021		
		Operating leases	Finance leases	Total
Assets:				
Rental and other property, net	$	10,378	—	10,378
Property and equipment, net		—	14,854	14,854
Total leased assets	$	10,378	14,854	25,232
Liabilities:				
Lease liabilities due within one year:				
Accrued liabilities other	$	3,795	—	3,795
Current portion of long-term debt		—	885	885
Long-term lease liabilities:				
Other long-term liabilities		7,008	—	7,008
Long-term debt, net of current portion		—	7,424	7,424
Total lease liabilities	$	10,803	8,309	19,112

(In thousands)

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

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

The Corporation incurred lease expenses for the year ended June 30, 2021 and 2020 as follows:

		2021	2020
Finance lease expense included in depreciation and amortization:			
Amortization of ROU assets	$	1,819	909
Finance lease expense included in interest:			
Interest on lease liabilities		168	92
Total finance lease expense	$	1,987	1,001
Operating lease expense included in purchased services and other	$	4,016	3,353
Operating lease expense included in other, net		593	395
Short-term lease expense included in purchased services and other		1,595	1,164
Short-term lease expense included in other, net		235	114
Total operating lease expense	$	6,439	5,026

(In thousands)

The finance and operating leases liabilities will mature as follows:

	Finance leases	Operating leases	Total leases
2022	$ 885	3,795	4,680
2023	903	2,459	3,362
2024	921	1,604	2,525
2025	1,026	1,235	2,261
2026	1,064	1,142	2,206
Thereafter	3,510	568	4,078
	$ 8,309	10,803	19,112

(13) Functional Classification of Expenses

The Corporation allocates expenses by function on a department basis based on their functional role. Departments supporting the entire corporation in a support services function are classified as management and general; departments providing hospital based services and clinics providing ambulatory services are categorized accordingly. Foundation expenses consist of both the hospital foundations and the support services associated with operating those foundations incurred by other Salem entities. Expenses on a functional basis for the fiscal years ended June 30, 2021 and 2020 were as follows:

	2021				
	Hospital	Clinics	Foundation	General and administrative	Total
Labor and benefits	$ 324,405	102,466	242	114,959	542,072
Medical and other supplies	118,345	3,612	61	10,387	132,405
Purchased services and other	72,363	6,933	1,498	42,804	123,598
Depreciation	31,026	1,991	114	17,732	50,863
Professional fees	11,249	2,148	9	6,328	19,734
Interest and amortization	12,713	—	—	—	12,713
Total	$ 570,101	117,150	1,924	192,210	881,385

(In thousands)

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

(14) Commitments and Contingencies

(a) General and Professional Liability Insurance

On a claims-made basis, WVIC provides excess insurance coverage up to a $1,000 self-insured retention limit per occurrence and $6,000 annual aggregate limit for healthcare professional liability ($1,000/$6,000 limits) for Salem and West Valley for the years ending June 30, 2021 and 2020. In excess of the $1,000/$6,000 limits, the Hospitals annually purchase reinsurance coverage for claims up to $34,000 in aggregate on a claims-made basis. Reinsurance contracts do not relieve the Corporation from its obligations to claimants. Failure of reinsurers to honor their obligations could result in losses to the Corporation. The Corporation evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurer to manage its exposure to significant losses from reinsurer insolvencies.

General and professional liability costs are accrued based upon an actuarial determination with estimated incurred-but-not-reported professional liability losses recorded at the expected, undiscounted level. The Corporation has recorded estimated liabilities for incurred-but-not-reported professional liability claims and for deductibles on reported claims aggregating $9,473 and $7,772 as of June 30, 2021 and 2020, respectively. The estimated liabilities for incurred-but-not-reported medical claims are recorded on the Hospitals' books. WVIC carries the estimated liabilities for deductibles on reported claims. Management believes that these estimated liabilities are adequate; however, the establishment of estimated liabilities for incurred-but-not-reported medical malpractice claims and for deductibles on reported claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact operations in future periods.

The Corporation records claim liabilities without consideration of insurance recoveries and receivables for insurance recoveries to be reported separately subject to a valuation allowance as appropriate. The Corporation recorded an asset for insurance recoveries receivable and estimated liabilities in the amount of $2,874 and $2,292 as of June 30, 2021 and 2020, respectively. The insurance recovery receivable and insured claims liability are included in other noncurrent assets and estimated medical malpractice claims liability in the accompanying consolidated balance sheets. No valuation allowance was recorded related to reinsurance receivables as of June 30, 2021 and 2020.

(b) Self-Insured Employee Benefits

The Corporation is self-insured for employee's medical and dental claims. Claims are accrued as incurred. The Corporation has recorded an accrual for the estimated claims, including estimates of the ultimate costs for both reported claims and claims incurred but not reported of $5,417 and $3,932 as of June 30, 2021 and 2020, respectively. Management believes that these amounts, which have been included within other accrued liabilities in the accompanying consolidated balance sheets, are adequate to cover estimated employee's medical and dental claims.

(c) Risk Management

In the ordinary course of business, the Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the fiscal year ended June 30, 2021 or 2020. The Corporation is self-insured for workers' compensation claims. The Corporation has recorded estimated liabilities for claims in the amount of $2,004 and $2,349 as of June 30, 2021 and 2020, respectively, which have been included in "other accrued liabilities" in the accompanying balance sheet.

(d) Regulation and Litigation

The healthcare industry is governed by various laws and regulations of federal, state, and local governments. These laws and regulations are subject to ongoing government review and interpretation and include matters such as licensure, accreditation, reimbursement for patient services, and referrals for Medicare and Medicaid beneficiaries. Compliance with these laws and regulations is required for participation in government healthcare programs and have become more complicated in recent years due to changes resulting from the health reform law and the introduction of health benefit exchanges and coordinated care organizations into the local marketplace. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by healthcare providers. These types of investigations may result in settlements involving fines and penalties, as well as repayment of improper reimbursement. The Corporation has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of significant instances of noncompliance.

(15) Lean Initiatives (Unaudited)

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

In fiscal years 2021 and 2020, the Corporation had a strategic goal to engage frontline staff in leading and completing a Lean activity to remove waste from the system, creating improved value for their patients.

	12 months ended June 30	
	2021	**2020**
	(Not in thousands)	
% of front line staff leading and completing a Lean activity	100 %	88 %
Total lean activities completed	7,574	6,212

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

(16) Subsequent Events

The Corporation evaluated subsequent events after the consolidated balance sheet date of June 30, 2021 through October 8, 2021 which was the date the consolidated financial statements were issued.

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Balance Sheet Information

June 30, 2021

(In Thousands)

	Obligated group					
	Salem Health	Parent and consolidating entries	Obligated group total	Non-Obligated group	Consolidated FY21	Consolidated FY20
Current assets:						
Cash and cash equivalents	$ 32,730	129	32,859	3,175	36,034	45,400
Patient accounts receivable, net	117,924	—	117,924	5,636	123,560	99,546
Other receivables	14,917	—	14,917	3,635	18,552	16,692
Supplies inventory	9,143	—	9,143	549	9,692	8,874
Prepaid expense and other	13,707	—	13,707	111	13,818	10,028
Total current assets	188,421	129	188,550	13,106	201,656	180,540
Investments	1,226,239	(117,559)	1,108,680	33,139	1,141,819	1,046,065
Property and equipment, net	282,953	322,503	605,456	2,013	607,469	525,382
Rental and other property held for future development, net	36,786	24,709	61,495	829	62,324	52,321
Investments in health related entities	21,200	780	21,980	—	21,980	21,635
Other noncurrent assets	40,959	—	40,959	(25,138)	15,821	16,312
Total assets	$ 1,796,558	230,562	2,027,120	23,949	2,051,069	1,842,255

(Continued)

Schedule 1

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Balance Sheet Information

June 30, 2021

(In Thousands)

		Obligated group					
		Salem Health	**Parent and consolidating entries**	**Obligated group total**	**Non-obligated group**	**Consolidated FY21**	**Consolidated FY20**
Current liabilities:							
Accounts payable	$	97,618	11,062	108,680	(32,345)	76,335	51,819
Accrued liabilities:			—		—		
Payroll, payroll taxes, and withholdings		32,635	—	32,635	540	33,175	21,731
Paid time off		25,599	—	25,599	1,062	26,661	23,241
Other		14,540	—	14,540	465	15,005	76,133
Estimated third-party payor settlements, net		8,980	—	8,980	1,604	10,584	5,825
Current portion of long-term debt		11,909	—	11,909	—	11,909	11,595
Current portion of estimated professional liability		2,062	—	2,062	156	2,218	1,775
Total current liabilities		193,343	11,062	204,405	(28,518)	175,887	192,119
Long-term debt, net of current portion		496,928	—	496,928	—	496,928	508,783
Accrued postretirement healthcare benefits		3,074	—	3,074	142	3,216	6,204
Other long-term liabilities		7,100	—	7,100	52	7,152	10,960
Estimated medical malpractice claims liability		2,874	—	2,874	7,255	10,129	8,289
Total liabilities		703,319	11,062	714,381	(21,069)	693,312	726,355
Net assets:			—		—		
Without donor restrictions		1,088,716	219,500	1,308,216	41,820	1,350,036	1,108,368
With donor restrictions		4,523	—	4,523	3,198	7,721	7,532
Total net assets		1,093,239	219,500	1,312,739	45,018	1,357,757	1,115,900
Total liabilities and net assets	$	1,796,558	230,562	2,027,120	23,949	2,051,069	1,842,255

See accompanying independent auditors' report.

Schedule 2

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Statement of Operations Information

Fiscal year ending June 30, 2021

(In Thousands)

	Obligated group					
	Salem Health	**Parent and consolidating entries**	**Obligated group total**	**Non-obligated group**	**Consolidated FY21**	**Consolidated FY20**
Operating revenue:						
Net patient service revenue	$ 866,609	—	866,609	42,415	909,024	803,343
Other revenue	18,482	27,601	46,083	(1,909)	44,174	60,799
Net assets released from restriction used for operations	—	—	—	193	193	353
Total operating revenue	885,091	27,601	912,692	40,699	953,391	864,495
Operating expenses:						
Labor and benefits	520,988	—	520,988	21,084	542,072	501,101
Medical and other supplies	129,266	—	129,266	3,139	132,405	117,421
Purchased services and other	160,115	(44,904)	115,211	8,387	123,598	119,175
Depreciation	26,366	23,983	50,349	514	50,863	49,671
Professional fees	18,784	—	18,784	950	19,734	22,689
Interest and amortization	12,713	—	12,713	—	12,713	12,066
Total operating expenses	868,232	(20,921)	847,311	34,074	881,385	822,123
Operating income (loss)	16,859	48,522	65,381	6,625	72,006	42,372
Other income (loss):						
Investment income (loss), net	3,147	165,514	168,661	4,710	173,371	38,240
Loss on bond refunding	—	—	—	—	—	(8,660)
Loss on disposal of property and equipment	172	—	172	—	172	(1,456)
Other, net	(6,532)	1,355	(5,177)	(1,165)	(6,342)	(4,572)
Total other income (loss), net	(3,213)	166,869	163,656	3,545	167,201	23,552
Excess (deficit) of revenue over (under) expenses	13,646	215,391	229,037	10,170	239,207	65,924
Change in fair value of interest rate swap agreement	—	—	—	—	—	(837)
Reclassification of interest rate swap upon termination	—	—	—	—	—	8,957
Change in net unrealized gain (loss) on other-than-trading securities	—	—	—	(361)	(361)	598
Change in postretirement benefit obligation	2,541	—	2,541	141	2,682	414
Net assets released from restriction used for property and equipment	—	—	—	140	140	17
Change in net assets	$ 16,187	215,391	231,578	10,090	241,668	75,073

See accompanying independent auditors' report.