PEACEHEALTH NETWORKS

Consolidated Financial Statements

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

PEACEHEALTH NETWORKS

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

Independent Auditors' Report

The Board of Directors
PeaceHealth Networks:

We have audited the accompanying consolidated financial statements of PeaceHealth Networks (a Washington not-for-profit corporation), which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations and changes in net assets without donor restrictions, 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 PeaceHealth Networks as of June 30, 2021 and 2020, and the results of its operations, changes in net assets, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2 to the consolidated financial statements, for the year ended June 30, 2021, PeaceHealth Networks adopted Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

KPMG LLP

Portland, Oregon
September 24, 2021

PEACEHEALTH NETWORKS

Consolidated Balance Sheets

June 30, 2021 and 2020

(In thousands)

Assets		2021	2020
Current assets:			
Cash and cash equivalents	$	181,586	420,908
Short-term investments		1,350,263	815,519
Accounts receivable		333,958	274,498
Other receivables		40,251	56,938
Inventory of supplies		97,580	64,218
Prepaid expenses and other		45,185	35,390
Assets whose use is limited that are required for current liabilities		8,907	7,172
Total current assets		2,057,730	1,674,643
Assets whose use is limited:			
Cash equivalents and investments		1,800,111	1,383,595
Investments in joint ventures and other		36,726	31,876
Total assets whose use is limited		1,836,837	1,415,471
Less current portion		(8,907)	(7,172)
Net assets whose use is limited		1,827,930	1,408,299
Property, plant, and equipment:			
Land and improvements		150,632	152,841
Buildings, fixed equipment, and other		1,900,101	1,850,838
Moveable equipment		1,075,745	1,003,712
Construction in progress		60,224	93,560
Total property, plant, and equipment		3,186,702	3,100,951
Less accumulated depreciation		(1,981,736)	(1,841,716)
Net property, plant, and equipment		1,204,966	1,259,235
Interest in net assets of related foundations		79,172	62,117
Operating lease right-of-use assets		77,740	—
Other assets		110,657	113,179
Total assets	$	5,358,195	4,517,473

(Continued)

PEACEHEALTH NETWORKS

Consolidated Balance Sheets

June 30, 2021 and 2020

(In thousands)

Liabilities and Net Assets	**2021**	**2020**
Current liabilities:		
Accounts payable	$ 147,042	140,669
Accrued payroll, payroll taxes, and employee benefits	218,485	188,421
Accrued interest payable	5,732	4,207
Medicare advanced funding	153,234	297,861
Current portion of operating lease liabilities	11,884	—
Other current liabilities	65,154	65,670
Pending trades payable	15,114	17,087
Current portion of long-term debt	15,829	24,109
Total current liabilities	632,474	738,024
Other long-term liabilities	462,537	416,651
Long-term operating lease liabilities, net of current portion	69,940	—
Long-term debt, net of current portion	1,431,504	954,467
Net assets:		
Without donor restrictions, controlling interest	2,651,418	2,319,025
Without donor restrictions, noncontrolling interest	6,990	5,860
With donor restrictions	103,332	83,446
Total net assets	2,761,740	2,408,331
Total liabilities and net assets	$ 5,358,195	4,517,473

See accompanying notes to consolidated financial statements.

PEACEHEALTH NETWORKS

Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions

Years ended June 30, 2021 and 2020

(In thousands)

	2021	2020
Revenues:		
Patient service revenue	$ 2,896,963	2,626,975
Other operating revenue	115,685	206,094
Total revenues	3,012,648	2,833,069
Expenses:		
Salaries and wages	1,550,112	1,446,893
Payroll taxes and benefits	300,823	297,157
Supplies	464,734	409,018
Purchased services	420,520	352,867
Other	196,441	195,508
Depreciation and amortization	150,668	145,696
Interest and amortization of deferred financing costs	38,913	34,367
Total expenses	3,122,211	2,881,506
Loss from operations	(109,563)	(48,437)
Other income (expense):		
Investment return, net	465,165	41,080
Net change in interest rate swaps	16,280	(55,645)
Loss on Bond Refinancing	(9,414)	—
Other	(55,307)	(4,383)
Total other income (expense)	416,724	(18,948)
Excess (deficit) of revenues over expenses	307,161	(67,385)
Net assets released from restrictions for property, plant, and equipment	4,237	8,804
Change in pension liability	24,831	(19,803)
Other	(2,706)	(1,812)
Increase (decrease) in net assets without donor restrictions	$ 333,523	(80,196)

See accompanying notes to consolidated financial statements.

PEACEHEALTH NETWORKS

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2021 and 2020

(In thousands)

		Without donor restrictions			
		Controlling interest	Noncontrolling interest	With donor restrictions	Total
Net assets at June 30, 2019	$	2,399,852	5,229	88,914	2,493,995
(Deficit) excess of revenues over expenses		(68,016)	631	—	(67,385)
Restricted contributions		—	—	8,804	8,804
Net assets released from restrictions		8,804	—	(9,751)	(947)
Change in interest in net assets of related foundations		—	—	(7,189)	(7,189)
Change in pension liability		(19,803)	—	—	(19,803)
Other		(1,812)	—	2,668	856
Change in net assets		(80,827)	631	(5,468)	(85,664)
Net assets at June 30, 2020		2,319,025	5,860	83,446	2,408,331
Excess (deficit) of revenues over expenses		306,031	1,130	—	307,161
Restricted contributions		—	—	4,237	4,237
Net assets released from restrictions		4,237	—	(5,120)	(883)
Change in interest in net assets of related foundations		—	—	17,055	17,055
Change in pension liability		24,831	—	—	24,831
Other		(2,706)	—	3,714	1,008
Change in net assets		332,393	1,130	19,886	353,409
Net assets at June 30, 2021	$	2,651,418	6,990	103,332	2,761,740

See accompanying notes to consolidated financial statements.

PEACEHEALTH NETWORKS

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	$	353,409	(85,664)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Depreciation and amortization		150,668	145,696
Loss (gain) on sale of property, plant, and equipment		2,187	(13,697)
Change in pension liability		(24,831)	19,803
Restricted contributions		(4,237)	(8,804)
Net change in realized and unrealized gains on investments		(422,212)	(2,502)
Valuation adjustments on swap arrangements		(29,292)	41,545
Vesting of Premier Class B units		—	(5,554)
Change in interest in net assets of related foundations		(17,055)	7,221
Equity earnings (losses) on investments, net		3,781	(43)
Loss on refinancing		9,414	—
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Accounts receivable		(59,460)	85,796
Other assets		(24,824)	(48,428)
Increase (decrease) in:			
Accounts payable		6,373	2,725
Medicare advanced funding		(26,472)	297,861
Accrued payroll, payroll taxes, and employee benefits		30,064	38,001
Other liabilities		1,240	43,046
Net cash (used in) provided by operating activities		(51,247)	517,002
Cash flows from investing activities:			
Purchase of property, plant, and equipment		(115,108)	(139,656)
Proceeds from sale of land held for sale and property, plant, and equipment		1,131	13,752
Purchase of alternative investments		(60,056)	(78,189)
Sales of alternative investments		29,979	33,412
(Purchases) sales of investments, net		(517,015)	47,985
Net cash used in investing activities		(661,069)	(122,696)
Cash flows from financing activities:			
Principal payments on long-term debt		(268,354)	(25,243)
Proceeds from new financing		741,305	—
Termination of swap contracts		—	(3,844)
Payment of deferred financing costs		(4,194)	—
Proceeds from restricted contributions		4,237	8,804
Net cash provided by (used in) financing activities		472,994	(20,283)
Net (decrease) increase in cash and cash equivalents		(239,322)	374,023
Cash and cash equivalents at beginning of year		420,908	46,885
Cash and cash equivalents at end of year	$	181,586	420,908
Supplemental disclose of cash flow information:			
Capital expenditures included in accounts payable	$	9,775	8,877

See accompanying notes to consolidated financial statements.

(1) Organization

(a) Corporate Structure

PeaceHealth Networks is a Washington not-for-profit corporation, recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code, which is the sole corporate member of PeaceHealth, which is also a Washington not-for-profit corporation, recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code, with its corporate office located in Vancouver, Washington. PeaceHealth Networks is not affiliated with the Roman Catholic Church, currently has no operations, and currently holds no financial assets in its own name; however, it is the member corporation of PeaceHealth, which is a Private Pontifical Juridic Person according to the canon law of the Roman Catholic Church, does have extensive healthcare operations and holds substantial financial assets. PeaceHealth Networks and its associated entities are collectively referred to herein as "the Corporation." PeaceHealth Networks and PeaceHealth are the only members of the Corporation's obligated group. At June 30, 2021, the following regional healthcare delivery systems and operating divisions are components of PeaceHealth:

Northwest Network:
- PeaceHealth Ketchikan Medical Center
- PeaceHealth St. Joseph Medical Center
- Peace Island Medical Center
- PeaceHealth United General Medical Center

Columbia Network:
- PeaceHealth St. John Medical Center
- PeaceHealth Southwest Medical Center

Oregon West Network:
- PeaceHealth Sacred Heart Medical Center at University District
- PeaceHealth Sacred Heart Medical Center at RiverBend
- PeaceHealth Cottage Grove Community Medical Center
- PeaceHealth Peace Harbor Medical Center

Systemwide Organizations:
- PeaceHealth Medical Group

These regional healthcare delivery systems and operating divisions provide inpatient, outpatient, primary, and specialty care and home care services in Alaska, Washington, and Oregon. These divisions primarily operate in Ketchikan, Alaska; Bellingham, Friday Harbor, Sedro Woolley, Longview, and Vancouver, Washington; and Springfield, Eugene, Florence, and Cottage Grove, Oregon.

PeaceHealth Networks included the following controlled affiliates at June 30, 2021:

- PeaceHealth
- Health Ventures
- Pooled Income Funds (including Charitable Life Income Funds)
- PeaceHealth Southwest Medical Center Foundation
- PeaceHealth Networks On Demand
- PeaceHealth Ambulatory LLC (established December 2020)
  - PeaceHealth Clinically Integrated Network, LLC
  - PeaceHealth Direct Contracting, LLC
- Clare Reassurance, Ltd. (established June 2020)
- Zoom Manufacturing LLC (established February 2021)

The consolidated financial statements include the accounts of the Corporation. All significant intercompany transactions and balances have been eliminated.

(2) Summary of Significant Accounting Policies

(a) Estimates

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

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of petty cash, cash in demand bank accounts, and all highly liquid debt instruments purchased with an original maturity of three months or less other than those amounts included in assets whose use is limited.

The Corporation maintains cash and cash equivalents on deposit at various institutions, which, at times, exceed the insured limits of the Federal Deposit Insurance Corporation. This exposes the Corporation to potential risk of loss in the event the institution becomes insolvent. Changes in cash equivalents held by investment managers are presented as investing activity on the consolidated statement of cash flows.

(c) Short-Term Investments

Short-term investments consist primarily of certificates of deposit, U.S. government, and other investment-grade securities. The maturities of these related securities can exceed one year. Management anticipates the securities will be liquidated within one year. Investment income or loss (including realized and unrealized gains and losses and interest and dividends) is included in the excess (deficit) of revenues over expenses.

(Continued)

(d) Inventory of Supplies

Inventory is valued on weighted average cost.

(e) Other Receivables

Other receivables primarily consist of amounts receivable from the Oregon Hospital Assessment Program and the Washington State Safety Net Assessment Program, amounts receivable from excess insurance carriers, and other miscellaneous amounts due.

(f) Assets Whose Use is Limited

Certain assets have been set aside by management of the Corporation for future capital improvements, self-insured liabilities, and other purposes, over which management retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Corporation have been reclassified as current in the consolidated balance sheets at June 30, 2021 and 2020. These items consist primarily of investments in marketable equity and fixed-income securities. Investment income or loss (including realized and unrealized gains and losses and interest and dividends) is included in the excess (deficit) of revenues over expenses.

The Corporation accounts for its investments on a trade-date basis. Investment sales and purchases initiated prior to the consolidated balance sheet date and settled subsequent to the consolidated balance sheet date result in amounts due from and to brokers. Changes in these assets and liabilities represent noncash investing activities excluded from the consolidated statement of cash flows. As of June 30, 2021 and 2020, the Corporation recorded payables of $15,114 and $17,087, respectively, for investments purchased but not settled as pending trades payable in the accompanying consolidated balance sheets.

(g) Liquidity

Cash and cash equivalents, accounts receivable, and short-term investments are the primary liquid resources used by the Corporation to meet expected expenditure needs within the next year. The Corporation has credit facility programs, as described in note 8, available to meet unanticipated liquidity needs. Although intended to satisfy long-term obligations, management estimates that approximately 80% and 84% of assets whose use is limited, as stated at June 30, 2021 and June 2020, respectively, could be liquidated and be made available for general operating purposes within the next year if needed.

(h) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost at the date of acquisition or fair value at the date of donation. Improvements and replacements of plant and equipment are capitalized. Maintenance and repairs are expensed as they are incurred. When property, plant, and equipment are sold or retired, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is recorded.

The Corporation assesses potential impairment of its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss is indicated when the sum of expected undiscounted future net cash flows is less than the carrying amount. The loss recognized is the difference between the fair value and the carrying amount. No impairment losses related to property, plant, and equipment were recognized during the years ended June 30, 2021 or 2020.

(In thousands)

(i) Depreciation

Depreciation on property, plant, and equipment are computed using the straight-line method over the following estimated useful lives:

Land improvements	5-25 Years
Buildings and improvements	5-80 Years
Fixed equipment	10-75 Years
Leasehold improvements	Shorter of remaining length of the lease or useful life
Moveable equipment	3-30 Years

(j) Other Assets

Other assets include intangible assets, primarily trade names, and goodwill. Intangible assets with indefinite lives are evaluated annually for impairment. Impairment reviews are performed of the purchased intangible assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. There were no impairment losses recognized during the years ended June 30, 2021 or 2020.

(k) Other Long-Term Liabilities

Other long-term liabilities consist primarily of the estimated fair value associated with the Corporation's interest rate swaps of $135,752 and $165,045 at June 30, 2021 and 2020, respectively; the liability for the PeaceHealth SWHS Frozen DB Pension Plan of $3,470 and $64,832 at June 30, 2021 and 2020, respectively; the liability for the PeaceHealth's 457(b) and 457(f) postretirement savings plans of $84,764 and $65,043 at June 31, 2021 and 2020, respectively; and the long-term portion of the liability for the self-insurance programs of $58,380 and $69,917 at June 30, 2021 and 2020, respectively. The remaining balance of other long-term liabilities includes environmental liabilities, gift annuities, and deferred compensation plan liability.

Accounting for asset retirement and environmental obligations requires legal obligations associated with the retirement of long-lived assets to be recognized at fair value when incurred and capitalized as part of the related long-lived asset. In the absence of quoted market prices, the Corporation estimates the fair value of its asset retirement obligations using present value techniques, in which estimates of future cash flows associated with retirement activities are discounted using a credit-adjusted risk-free rate.

The Corporation has created several pooled income funds. Donors make a contribution and receive annuity payments based on the associated rental income. Upon the annuity termination, the remaining interest is transferred to the Corporation. At June 30, 2021 and 2020, the Corporation has recorded the present value of the annuity payments of $9,718 and $9,952, respectively, as part of other long-term liabilities. The discount rate ranged from 6.4% to 7.2% at June 30, 2021 and 6.3% to 7.1% at June 30, 2020.

(l) Net Assets

Net assets without donor restrictions are those that are not subject to donor-imposed stipulations. Net assets with donor restrictions are those whose use by the Corporation have been limited by donor-imposed restrictions to a specific time period, in perpetuity, and/or purpose.

Net assets with donor restrictions represent resources subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that are restricted by the donor for a particular purpose and that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. When specific donor restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and the consolidated statements of changes in net assets as net assets released from restrictions.

(m) Contributions and Grants

Contributions and grants are recognized as revenue upon receipt of the donor's pledge to contribute. Contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts pledged that are restricted by the donor for specific purposes are reported as net assets with donor restrictions. Unconditional promises to give that are silent as to the due date are presumed to be time restricted by the donor until received and are reported as net assets with donor restrictions.

A donor restriction expires when an unconditional promise with an implied time restriction is collected or when the purpose for the restriction is accomplished. Upon expiration, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statements of operations as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase in restricted support at the time of receipt and as net assets released from restrictions at the time restrictions are met.

(n) Interest in Net Assets of Related Foundations

The Corporation recognizes its interest in its unconsolidated related foundations representing certain net assets that will ultimately benefit the Corporation. The Corporation records an asset on the consolidated balance sheets for its beneficial interest in net assets of related foundations. The Corporation recognizes changes in this beneficial interest in the consolidated statements of changes in net assets.

(o) Other Operating Revenue

Other operating revenue includes revenue from nonpatient care services, clinical space rental revenue, and contributions both unrestricted in nature and those released from restriction to support operating activities, COVID-19 related grant income and other miscellaneous revenue. Revenue is generally

(Continued)

recognized at point of service for these transactions in accordance with ASC Topic 606, *Revenue from Contracts with Customers*.

(p) Loss from Operations

Loss from operations excludes certain items that the Corporation deems outside the scope of its primary business, such as investment income, change in valuation of interest rate swaps, and other items.

(q) Excess (Deficit) of Revenues over Expenses

Excess (deficit) of revenues over expenses includes results from the Corporation's operating and nonoperating investing activities. Investment income includes interest income, dividends, and realized and unrealized investment gains and losses. Changes in net assets without donor restrictions not included in excess (deficit) of revenues over expenses include net assets released from restriction for the purchase of property, changes in the Corporation's interest in the net assets of noncontrolled foundations, and certain changes in funded status of the pension plan.

(r) Federal and State Income Taxes

PeaceHealth and PeaceHealth Networks have received determination letters from the Internal Revenue Service stating that they are exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code except for tax on unrelated business income. It is management's belief that none of its activities have produced material unrelated business income.

The Corporation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that exceeds a 50% probability of being realized. Changes in recognition or measurement are reflected in the period in which the change in estimate occurs.

Certain affiliated entities included in the consolidated financial statements may be subject to taxation. The tax expense and related provision for these entities are not material to the consolidated financial statements.

(s) Oregon Hospital Assessment Program and Washington State Safety Net Assessment Program

In the states of Oregon and Washington, the Corporation is subject to a provider tax program on certain patient service revenues at qualifying hospitals to increase funding from other sources and obtain additional federal funds to support increased payments to providers for Medicaid services. These programs resulted in assessments paid to the states and enhanced supplemental payments paid to the Corporation in the way of lump-sum payment and per claim increases. In 2021 and 2020, these programs resulted in supplemental payments of $96,456 and $90,370, respectively, recorded in patient service revenue, and assessments of $85,653 and $78,996, respectively, recorded in other expenses in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

(t) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation to more consistently present financial information between years.

(u) Recently Adopted or Newly Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a lease liability and a right-of-use (ROU) asset for all lease obligations with exception to short-term leases. The lease liability represents the lessee's obligation to make lease payments arising from the lease measured on a discounted basis and the right-of-use asset represents the lessee's right to use or control the use of a specified asset for a lease term. The lease guidance also simplifies accounting for sale-leaseback transactions. In 2018, the FASB updated its guidance allowing entities to adopt the provisions of the standard prospectively without adjusting comparative periods. The Corporation adopted this option and the consolidated financial statements for periods prior to July 1, 2020 were not modified for the application of the new lease accounting standard. The Corporation implemented Accounting Standards Codification (ASC) Topic 842 beginning on July 1, 2020. Upon adoption of ASU No. 2016-02, the Corporation recorded $65,808 of right-of-use assets, net of deferred and prepaid rent, associated with operating leases in right-of-use assets, net in the consolidated balance sheet, $13,186 of current liabilities associated with operating leases in current portion of lease liabilities in the consolidated balance sheet and $52,622 of long-term liabilities associated with operating leases in lease liabilities, net in the consolidated balance sheet. The Corporation elected the practical expedient that allows lessees to choose not to separate lease and nonlease components by class of underlying asset and applied this expedient to all relevant asset classes. The Corporation also elected the package of practical expedients permitted under the transition guidance within ASU No. 2106-02 to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial indirect costs for existing leases.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which applies to all entities that are required to make disclosures about recurring or nonrecurring fair value measurements. The amendments in ASU No. 2018-13, which remove, modify, or add certain disclosure requirements as part of the FASB's disclosure framework project to improve the effectiveness of the notes to the financial statements, were adopted for the year ended June 30, 2021. The adoption of this guidance was not significant and did not impact the Corporation's consolidated balance sheets, the results of operations, or cash flows.

(3) Revenue Recognition

(a) Patient Service Revenue

Patient service revenue relates to contracts with patients involving third-party payors where the Corporation has an obligation to perform healthcare services. This revenue is recorded at the amount due from patients, third-party payors, and others when the performance obligations are satisfied. For the years ended June 30, 2021 and 2020, $64,015 and $59,055 of implicit price concessions were recorded as a direct deduction to patient service revenue. The Corporation bases the implicit price concessions on historical collectibility data by payor using a portfolio approach to recognize the deductions netted against revenue when it is recognized.

(In thousands)

The Corporation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Corporation under these agreements includes prospectively determined rates per unit of service and discounts from established charges, as well as risk-sharing arrangements. Most arrangements provide for payment or reimbursement to the Corporation at amounts different than established rates. Contractual discounts represent the difference between established rates for services and amounts paid or reimbursed by these third-party payors. Risk-sharing arrangements include incentive payments for specific quality outcomes, effective management of costs, and other measures, and in some cases may result in a penalty.

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The Corporation maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies under its charity care policy. Estimated costs (based on the proportion of overall costs to charges foregone for charity care) for services and supplies furnished under the charity care policy for the years ended June 30, 2021 and 2020 were approximately $48,155 and $63,221, respectively.

(b) Disaggregation of Revenue

The Corporation earns the majority of its revenues from contracts with customers. Revenues and adjustments not related to contracts with customers are included in other revenue.

Total revenues from contracts with customers by payor are as follows for the years ended June 30:

		2021	2020
Medicare	$	1,183,168	1,035,407
Medicaid		355,896	327,132
Commercial and other		1,312,955	1,219,870
Private pay		44,944	44,566
Patient service revenue		2,896,963	2,626,975
Other revenue		115,685	206,094
Total revenue	$	3,012,648	2,833,069

Note 4 includes discussion of the federal stimulus payments received for COVID-19 included in other revenue.

(In thousands)

(c) Variable Consideration

Reimbursement for inpatient and outpatient services rendered to Medicare recipients has been made principally under a prospective pricing system. Services to Medicaid patients are also reimbursed based on a combination of prospectively determined rates and cost reimbursement methodology. Continuation of these reimbursement programs at the present level, and on the present basis, is dependent upon future policies of federal and state governmental agencies. The Corporation operates five critical access hospitals that are reimbursed based on costs for inpatient and outpatient services rendered to Medicare and Medicaid program beneficiaries. Interim reimbursement to critical access hospitals is based upon tentative rates and retroactive adjustment is made to actual cost during final settlement by either the Medicare fiscal intermediary or the applicable state's Medicaid agency.

Patient service revenue is recognized at the time services are provided to patients. Revenue is recorded in the amount which the Corporation expects to collect, which may include variable components. Variable consideration is included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with variable consideration is subsequently resolved. The Corporation has estimated payments for services rendered to Medicare and Medicaid patients during the year by applying the payment principles of the applicable governmental agencies and believes that an adequate provision has been made in the accompanying consolidated financial statements for final settlement. Estimates of final settlements due to and due from Medicare, Medicaid, and other third-party payors have been reflected net as reimbursement settlement payable in the accompanying consolidated balance sheets. Differences between the net amounts accrued and subsequent settlements are recorded in operations at the time of settlement. The net amount of adjustments from finalization and adjustment of prior years' cost reports and other third-party settlements resulted in a decrease in patient service revenue of approximately $4,454 in 2021 and a decrease of approximately $12,346 in 2020.

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

(d) Concentration of Credit Risk

There is a corresponding significant concentration of credit risk in net accounts receivable balances at June 30:

	2021	2020
Medicare	34 %	31 %
Medicaid	10	10
Commercial and other	48	50
Private pay	8	9
	100 %	100 %

(4) COVID-19

During the COVID-19 pandemic, federal, state, and local authorities undertook several actions designed to assist healthcare providers in providing care to COVID-19 and other patients and to mitigate the adverse economic impact of the COVID-19 pandemic. Legislative actions taken by the federal government included the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the Paycheck Protection Program and Health Care Enhancement Act, the Continuing Appropriations Act, 2021 and Other Extensions Act, and the Consolidated Appropriations Act, 2021 (collectively, the “COVID Acts”).

With the COVID Acts, the federal government authorized funding to be distributed through the Public Health and Social Services Emergency Fund (“Provider Relief Fund” or “PRF”). On June 2021, the U.S. Department of Health and Human Services (HHS) established new deadlines for when recipients of PRF grants must use the funding received, generally 12 to 18 months after receipt of the grant funds. HHS will recoup PRF grant funds not utilized by the established deadlines. The Corporation received approximately $133,919 in payments from the PRF of which $25,668 and $108,251 were recognized as other operating revenue for the years ended June 30, 2021 and 2020, respectively.

The COVID Acts also revised the Medicare accelerated payment program in an attempt to disburse payments to hospitals and other care providers more quickly. Recipients may retain the accelerated payments for one year from the date of receipt before recoupment commences, which is effectuated by a 25% offset of claims payments for 11 months, followed by a 50% offset for the succeeding six months. At the end of the 29-month period, interest on the unpaid balance will be assessed at 4.00% per annum. The initial 11-month recoupment period began in April 2021. The accelerated payments as of June 30, 2021 and 2020, respectively, were $271,389 and $297,861, which have been accrued on the consolidated balance sheets as a contract liability in the Medicare advance funding current liability and in other long-term liabilities. This contract liability will be reduced over time as revenue is recognized for claims submitted for services provided after April 2021.

The COVID Acts also permitted employers to defer payment of the 6.2% employer Social Security tax beginning March 27, 2020 through December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Corporation began deferring the employer portion of social security taxes in mid-April 2020. As of June 30, 2021 and 2020, respectively, the Corporation deferred $49,341 and $15,951 in social security taxes, which are included in accrued payroll, payroll taxes and employee benefits and other long-term liabilities in the accompanying consolidated balance sheet.

(5) Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurement*, requires 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 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). 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. Investments valued utilizing net asset value (NAV) as a practical expedient are excluded from the hierarchy.

The fair value of cash equivalents and investments, other than those measured using NAV as a practical expedient for fair value, is estimated using quoted market prices multiplied by shares held or other observable inputs when quoted market prices are unavailable.

Registered mutual funds and money market funds are classified in Level 1 of the fair value hierarchy as defined above because their fair values are based on quoted prices for identical securities.

The common/collective trusts have been determined to trade daily at NAV as the trading price and are classified in Level 2 of the fair value hierarchy, as defined above.

The Corporation uses a practical expedient for the estimation of the fair value of investments in funds for which the investment does not have a readily determinable fair value. The practical expedient used by the Corporation is the NAV per share or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. Investments in hedge funds, real estate funds, and private equity investments are carried at estimated fair value using NAV as a practical expedient as determined by the external investment manager. Valuations provided by fund administrators consider variables, such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the exit price. Management reviews the valuations and assumptions provided by fund administrators for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of fair value. The initial valuation is adjusted when changes to inputs and assumptions are corroborated by evidence, such as transactions of similar securities; completed or pending third-party transactions in the underlying security or comparable entities; offerings in the capital markets; and changes in financial results, data, or cash flows. For positions that are not traded in active markets or are subject to notice provisions, valuations are adjusted to reflect such provisions, and such adjustments are generally based on available market evidence.

Other financial instruments of the Corporation include cash and cash equivalents and other receivables. The carrying amount of these instruments approximates fair value because these items mature in less than one year. The carrying amount of other long-term investments approximates fair value, excluding joint ventures, which are accounted for under the equity method of accounting.

(In thousands)

(6) Investments

The composition of cash equivalents and investments carried at fair value on a recurring basis at June 30, 2021 is set forth in the following table:

	June 30, 2021	Fair value measurements at reporting date using Level 1	Level 2	Level 3
Assets:				
Short-term investments:				
Cash equivalents	$ 66,375	66,375	—	—
Fixed income:				
Government, municipal, foreign, and other	310,478	209,964	100,514	—
Mortgage and asset-backed securities	113,243	—	113,243	—
Corporate obligations	334,616	—	334,616	—
Other short-term investments	18,506	17,627	879	—
Common/collective trusts	16,934	—	16,934	—
Total	860,152	293,966	566,186	—
Designated for capital acquisition:				
Cash equivalents	109,030	109,030	—	—
Fixed income:				
Government, municipal, foreign, and other	90,577	—	90,577	—
Mutual funds:				
Fixed income	133,867	133,867	—	—
Domestic equities	776,589	776,589	—	—
International equities	502,119	502,119	—	—
Other	32,163	32,163	—	—
Other long-term equity investments	28,755	28,755	—	—
Common/collective trusts	8,751	—	8,751	—
Hedge funds and other	39,515	—	39,515	—
Total	1,721,366	1,582,523	138,843	—
Funds designated for 457 plans:				
Mutual funds	84,764	84,764	—	—
Total	84,764	84,764	—	—
Total assets at fair value	2,666,282	$ 1,961,253	705,029	—
Investments measured at NAV:				
Hedge funds	227,386			
Private equity	185,742			
Real estate limited partnerships	70,964			
Total assets	$ 3,150,374			
Liabilities:				
Interest rate swaps	$ 135,752	—	135,752	—
Total liabilities	$ 135,752	—	135,752	—

(In thousands)

The composition of cash equivalents and investments carried at fair value on a recurring basis at June 30, 2020 is set forth in the following table:

	June 30, 2020	Fair value measurements at reporting date using Level 1	Level 2	Level 3
Assets:				
Short-term investments:				
Cash equivalents	$ 92,903	92,903	—	—
Fixed income:				
Government, municipal, foreign, and other	156,661	84,681	71,980	—
Mortgage and asset-backed securities	119,937	—	119,937	—
Corporate obligations	226,687	—	226,687	—
Mutual funds	125,630	125,630	—	—
Other short-term investments	31,660	17,163	14,497	—
Common/collective trusts	9,767	—	9,767	—
Total	763,245	320,377	442,868	—
Designated for capital acquisition:				
Cash equivalents	2,319	2,319	—	—
Fixed income:				
Government, municipal, foreign, and other	98,941	60	98,881	—
Corporate obligations	147	147	—	—
Mutual funds:				
Fixed income	109,291	109,291	—	—
Domestic equities	425,873	425,873	—	—
International equities	313,570	313,570	—	—
Other	16,605	16,605	—	—
Other long-term equity investments	22,344	22,344	—	—
Common/collective trusts	5,252	—	5,252	—
Hedge funds and other	33,329	—	33,329	—
Total	1,027,671	890,209	137,462	—
Funds designated for 457 plans:				
Mutual funds	65,043	65,043	—	—
Total	65,043	65,043	—	—
Total assets at fair value	1,855,959	$ 1,275,629	580,330	—
Investments measured at NAV:				
Hedge funds	205,081			
Private equity	66,645			
Real estate limited partnerships	71,429			
Total assets	$ 2,199,114			
Liabilities:				
Interest rate swaps	$ 165,045	—	165,045	—
Total liabilities	$ 165,045	—	165,045	—

(In thousands)

The Corporation holds investments in private equity and distressed debt limited partnerships where NAV is used as a practical expedient to measure fair value at June 30, 2021 and 2020. These partnerships do not allow for periodic redemptions but rather liquidate upon the termination date as stated in the partnership agreement. Therefore, the private equity investments are considered illiquid investments. At June 30, 2021 and 2020, the Corporation held $185,742 and $66,645, respectively, of private equity and distressed debt limited partnerships that had termination dates that ranged from 2022 to 2031.

	2021	2020	Unfunded commitments
Distressed debt	$ 535	868	1,899
Private equity	185,207	65,777	70,776
Total	$ 185,742	66,645	72,675

The following table summarizes investments measured at fair value based on NAV per share as of June 30, 2021 and 2020 and their redemption restrictions:

	Fair value at June 30, 2021	Fair value at June 30, 2020	Lockup terms or redemption restrictions	Redemption frequency	Redemption frequency
Hedge funds	$ 42,806	39,698	None	Monthly	10 Days
Hedge funds	7,976	7,391	None	Monthly	30 Days
Hedge funds	17,212	20,647	Gate at 20% of total fund net assets	Monthly	60 Days
Hedge funds	17,529	15,978	None	Monthly	90 Days
Hedge funds	52,134	37,747	None	Semimonthly	30 Days
Hedge funds	16,002	19,042	Gate at 50% of total fund net assets	Quarterly	60 Days
Hedge funds	16,747	17,488	None	Quarterly	60 Days
Hedge funds	11,859	15,797	Gate at 10%	Quarterly	65 Days
Hedge funds	14,444	11,293	Withdrawal limits across four successive withdrawal dates	Quarterly	90 Days
Hedge funds	22,677	20,000	None	Quarterly	90 Days
Hedge funds	8,000		None	Quarterly	30 Days
Real estate	47,970	48,155	First business day of the calendar quarter with 45 days notice	Quarterly	45 Days
Real estate	22,327	22,039	Two-year lock up period	N/A	N/A
Real estate	667	1,235	None	N/A	N/A
	$ 298,350	276,510			

(In thousands)

Investment return is included in other income (expense) as part of nonoperating income in the consolidated statements of operations and changes in net assets without donor restrictions. Investment return comprises the following for the years ended June 30, 2021 and 2020:

		2021	2020
Interest and dividend income	$	42,953	42,412
Net realized gains (losses) on sales of investments		71,473	(1,917)
Net change in unrealized gains on investments		350,739	585
Investment return, net	$	465,165	41,080

Other Investments

Health Ventures is a not-for-profit corporation that has entered into joint ventures to provide radiology, oncology, dialysis and surgery services. PeaceHealth is the sole member of Health Ventures. Health Ventures is included in the consolidated financial statements but is not part of the obligated group. The majority of these joint ventures are accounted for under the equity method. Health Venture's ownership interest in the joint ventures ranged from approximately 25.1% to 50% at June 30, 2021 and 24.2% to 50% at June 30, 2020. As of June 30, 2021 and 2020, the carrying value of the joint ventures was approximately $27,998 and $23,402, respectively, and is recorded in investments in joint ventures and other on the consolidated balance sheets. Equity earnings from the joint ventures of $12,949 and $9,119 for the years ended June 30, 2021 and 2020, respectively, are included in other operating revenue. The unaudited assets, liabilities, and equity of these joint ventures accounted for under the equity method were $76,936, $13,902, and $63,034, respectively, at June 30, 2021 and $72,156, $17,110, and $55,046, respectively, at June 30, 2020.

At June 30, 2021, Health Ventures had a controlling ownership of 51.02% in Riverbend Ambulatory Surgery Center, which is consolidated within Health Ventures.

(7) Leases

The Corporation leases office space and clinic facilities under various noncancelable operating leases. We determine if an arrangement is a lease at inception of the contract. For leases with terms greater than 12 months, the Corporation records the related ROU asset and lease liability at the present value of the lease payments over the contract term using the Corporation's incremental borrowing rate. Right-of-use assets represent the Corporation's right to use the leased assets over the life of the lease and are derived from the lease liability, adjusted by any lease payments made prior to lease commencement, initial direct costs, and/or lease incentives. Building lease agreements generally require the Corporation to pay maintenance, repairs, and property taxes, which are variable based on actual costs incurred during each applicable period. Such costs are not included in the determination of the ROU asset or lease liability. Variable lease costs also include escalating rent payments that are not fixed at lease commencement but are based on an index that is determined in future periods over the lease term based on changes in the Consumer Price Index or other measures of cost inflation. Most leases include one or more options to renew the lease at the initial term, with renewal terms that generally extend the lease at the then market rate of rental payment. The exercise of lease renewal options is at the Corporation's sole discretion.

Rent expense for the leases was $41,089 for the year fiscal year ended June 30, 2021 and is included in purchased services on the consolidated statement of operations and changes in net assets without restrictions.

The following table presents the components of the right-of-use assets and liabilities related to leases and their classification in the accompanying consolidated balance sheets as of June 30, 2021 (in thousands):

		2021
Operating leases:		
Operating lease right-of-use assets	$	77,740
Short-term lease liabilities		11,884
Long-term lease liabilities		69,940
	$	81,824
Weighted average lease term – operating leases		8.3 years
Weighted average discount rate – operating leases		3.91 %

Supplemental cash flow and other information related to leases as of and for the year ended June 31 are as follows:

		2021
Operating cash flows (fixed payments)	$	14,350
Operating cash flows (liability reduction)		11,693
Operating cash flows from operating leases	$	26,043
Right-of-use assets obtained in exchange for operating lease obligations	$	70,296

The future minimum lease payments that are required under the above operating leases as of June 30, 2021 were as follows:

2022	$	14,090
2023		11,622
2024		10,219
2025		9,413
2026		8,559
Thereafter		22,537
	$	76,440

(In thousands)

As of June 30, 2020, prior to the adoption of Topic 842, future minimum lease payments for the five years subsequent to and thereafter, under nonconcallable operating lease agreements were as follows:

2022	$	18,784
2023		14,989
2024		13,428
2025		11,602
2026		9,533
Later years, 2027 through 2030		15,230
Total minimum lease payments	$	83,566

(In thousands)

(8) Long-Term Debt

Long-term debt at June 30 consisted of the following:

	Maturing through	Coupon rates 2021	Coupon rates 2020	Unpaid principal 2021	Unpaid principal 2020
Master trust debt:					
Fixed rate:					
2012 Direct Note Obligation to Bank of America	2022	2.32 %	2.32 %	$ 9,464	15,419
2013 Direct Note Obligation to Bank of America	2023	3.23 %	3.23 %	13,164	18,509
2013 Direct Note Obligation to Bank of America	2023	— %	3.92 %	—	147,856
Series 2014 Washington Bonds, Series A	2028	— %	2.00–5.00%	—	27,715
Series 2014 Oregon Bonds, Series A	2032	4.125%–5.00%	4.125%–5.00%	57,470	60,105
Series 2018 Taxable Bonds	2048	4.79 %	4.79%	355,144	355,144
Series 2020 Taxable Bonds	2050	1.375%-3.218%	— %	741,305	—
Total fixed rate				$ 1,176,547	624,748
Variable:					
Series 2011 Oregon Bonds, Series B, variable interest rate (B: 68%*1ml +57.5 bps)	2047	0.70%	0.70%	$ —	75,000
Series 2013 Washington Bonds, Series A, variable interest rate (68%*1ml+ 70 bps),	2034	0.80 %	0.82%	43,465	44,865
2015 Direct Note Obligation to US Bank, variable interest rate (1ml+ 75 bps),	2020	2.43%	2.43%	—	168
Series 2018 Oregon Bonds, Series A variable interest rate (prevailing market rates),	2034	0.05 %	0.07%	45,975	45,975
Series 2018 Oregon Bonds, Series B variable interest rate (prevailing market rates),	2034	0.05 %	0.08%	100,000	100,000
Series 2018 Oregon Bonds, Series C variable interest rate (80%1ml+ 62 bps),	2047	0.74 %	0.76%	75,000	75,000
Total variable rate				$ 264,440	341,008
Unpaid principal, master trust debt				$ 1,440,987	965,756
Premium and other on long-term debt				(3,884)	2,178
Master trust debt, including premiums and discounts, net				1,437,103	967,934
Other long-term debt				10,230	10,642
Total long-term debt				1,447,333	978,576
Less amounts due within one year				(15,829)	(24,109)
Total long-term debt due after one year				$ 1,431,504	954,467

* ML as used in the table above is defined as monthly LIBOR.

PeaceHealth Networks and PeaceHealth are the sole members of the PeaceHealth Obligated Group. The assets of the obligated group are available for the satisfaction of debts of PeaceHealth and PeaceHealth Networks under the terms of its master trust indenture.

(In thousands)

PeaceHealth issued debt in fiscal year 2021 to diversify its debt profile and raise funds for future capital needs. Series 2020 taxable fixed rate bonds with a par amount of $741,305 were issued for general corporate purposes and to refinance the Series 2011 Oregon Series B Direct Placement Bonds, Series 2014 Washington Series A Bonds and the 2013 Direct Note Obligation to Bank of America.

The Washington 2013(A) Direct Placement Bonds, 2018 Oregon Series A B Variable Rate Demand Bonds and the 2018 Oregon Series C Direct Placement Bonds have variable interest rates that may bear interest at a daily, weekly, 28 day, monthly, semiannual, or annual rates. The rate determination mode may be changed upon request of PeaceHealth and PeaceHealth Networks. The bonds are subject to optional redemption by PeaceHealth and PeaceHealth Networks, in whole or in part, at 100% of the principal amount plus accrued interest. The Washington 2013(A) bonds can be converted to publicly held variable rate demand bonds if PeaceHealth and PeaceHealth Networks chooses. The continuing covenant agreement for the Washington 2013(A) bonds requires a minimum two year notice period prior to any anniversary of the date of issue occurring on or after February 27, 2016 to be given from the bank to PeaceHealth if the bank chooses to no longer hold the debt, provided that PeaceHealth is in compliance with financial covenants. Letters of credit supporting the 2018 Oregon Series A-B Bonds expire October 31, 2023 and October 31, 2024 and are extendable by the banks upon request from PeaceHealth and PeaceHealth Networks. The Washington 2013 A Direct Placement Bonds, the 2018 Oregon Series A-B Variable Rate Demand Bonds and the 2018 Oregon Series C Direct Placement Bonds are matched to fixed payor swaps ranging between 3.50% and 4.10% for approximately their par value, the notional amounts of swaps amortizing proportionately to the bonds.

Scheduled principal payments of long-term debt, excluding the premium on bonds, as due according to their original long-term amortization schedule and other debt according to its original maturity schedule for the next five years and thereafter are as follows:

	Long-term debt	Capitalized leases and other	Total
Year ending June 30:			
2022	$ 15,829	466	16,295
2023	13,587	1,651	15,238
2024	6,632	466	7,098
2025	4,880	466	5,346
2926	343,369	509	343,878
Thereafter	1,056,690	18,472	1,075,162
Total	$ 1,440,987	22,030	1,463,017
Less amounts representing interest		(11,800)	(11,800)
Present value of net minimum capital lease payments		$ 10,230	
Total long-term debt			$ 1,451,217

The PeaceHealth Master Trust Indenture, the loan agreements, and other contractual documents under which bonds were issued include covenants, which, among others, obligate PeaceHealth and PeaceHealth Networks to maintain patient service revenue at levels sufficient to achieve specified debt service coverage ratios, meet certain financial tests before additional debt can be incurred, and meet certain financial tests before there can be any significant disposition of property.

During the year ended June 30, 2021, the Corporation increased the revolving line of credit with Bank of America to $125 million. The line of credit bears interest at LIBOR Daily Floating Rate expiring in December 2025. At June 30, 2021, no amounts were drawn on the line of credit.

During the year ended June 30, 2021, the Corporation increased the revolving line of credit with US Bank to $175 million. The line of credit bears interest at LIBOR expiring in December 2025. At June 30, 2021, no amounts were drawn on the line of credit.

Cash paid for interest totaled approximately $36,846 and $34,040 for the years ended June 30, 2021 and 2020, respectively.

Deferred financing costs are amortized over the lives of the related debt issuances using the effective-interest method.

(9) Accounting for Derivative Instruments and Hedging Activities

In accordance with the policy adopted by the board of directors, the Corporation may use interest rate swap contracts to manage its net exposure to interest rate changes in attempting to reduce its overall cost of borrowing over time. Interest rate swap contracts generally involve the exchange of fixed and floating interest rate payments without the exchange of underlying principal (the swap of fixed or floating rates are on a notional amount). The Corporation accounts for its interest rate hedging transactions in accordance with FASB ASC Topic 815, *Derivatives and Hedging*. That standard requires that every derivative instrument be recorded on the balance sheet as either an asset or a liability measured at its estimated fair value. The interest rate swaps do not meet the criteria for hedge accounting and all changes in the valuation of the interest rate swaps are recognized in the consolidated statements of operations and changes in net assets without donor restrictions.

The Corporation has interest rate swap contracts outstanding as of June 30, 2021 and 2020, respectively, with a total current notional amount of approximately $337,175 and $338,625. The Corporation uses the fixed payor swaps to convert a portion of the outstanding variable rate bonds to fixed rates ranging from 3.5% to 4.1%. The fixed payor interest rate swaps are associated with the variable rate bonds but have not been integrated to any of the underlying debt for the purpose of hedge accounting.

Change in valuation of interest rate swaps consists of the noncash change in the liability primarily due to changes in market bond yields, as well as the cash payments and receipts associated with the swaps, and the amortization of the accumulated hedge effectiveness included in net assets. The noncash change in the fair value of the interest rate swaps was a decrease of $29,292 and increase of $41,545 in the liability for the years ended June 30, 2021 and 2020, respectively. Net cash settlement cost for the interest rate swaps was $13,012 and $10,257, for the years ended June 30, 2021 and 2020, respectively. The amortization of the accumulated hedge effectiveness included in net assets was $78,759 for both years ended June 30, 2021 and 2020.

(In thousands)

Derivative instruments are recorded at fair value taking into consideration the Corporation's nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. The impact of taking into account the nonperformance risk on the estimated fair value of the interest rate swaps was a benefit of approximately $3,836 and $17,231, as of June 30, 2021 and 2020, respectively. Recording the interest rate swaps at fair value results in a total liability of $135,752 and $165,045 as of June 30, 2021 and 2020, respectively, in other long-term liabilities in the accompanying consolidated balance sheets rather than the $139,588 and $182,276 that would be paid if all of the swaps were terminated as of June 30, 2021 and 2020, respectively. The inputs used to determine the impact of the counterparty nonperformance risk are Level 2 inputs; as such, derivative liabilities have been recorded as Level 2 in the Corporation's disclosure of fair value instruments (note 6).

The Corporation currently has four swap counterparties, which minimize counterparty risk and collateral posting requirements. These swap agreements contain various credit thresholds that, if breached by the Corporation, would constitute an additional termination event whereby the swap counterparties could terminate the swap by either making a payment to, or receiving a payment from the Corporation, depending upon the termination value of the swaps as of the date of termination. The Corporation retains the right to terminate the swaps at any point, which would also require either making or receiving a payment depending on the termination value of the swap as of the termination date. During the fiscal year ended June 30, 2021, the Deutsche Bank AG swaps were novated to Barclays Bank PLC and Mizuho Capital Markets LLC.

The following is a summary of the derivative instruments in place as of June 30, 2021 and 2020:

Maturity date	Current notional amounts at June 30, 2021	Current notional amounts at June 30, 2020	Counterparty	Credit value adjustment at June 30, 2021	Liability fair value at June 30, 2021	Credit value adjustment at June 30, 2020	Liability fair value at June 30, 2020
August 31, 2034	$ 45,000	45,000	Union Bank, N.A.	$ 208	(13,995)	1,061	(17,486)
May 24, 2047	—	75,000	Deutsche Bank AG	—	—	6,571	(47,915)
May 22, 2047	—	75,000	Deutsche Bank AG	—	—	6,571	(47,914)
May 24, 2047	75,000	—	Barclay Bank PLC	1,516	(40,247)	—	—
May 22, 2047	75,000	—	Mizuho Capital Markets LLC	1,516	(40,248)	—	—
August 01, 2034	50,000	50,000	U.S. Bank N.A.	242	(16,135)	1,218	(20,034)
August 01, 2034	50,000	50,000	U.S. Bank N.A.	242	(16,125)	1,218	(20,023)
September 01, 2034	42,175	43,625	Morgan Stanley Capital Services LLC	112	(9,002)	592	(11,673)
	$ 337,175	338,625		$ 3,836	(135,752)	17,231	(165,045)

(10) Benefit Plans

(a) Defined-Benefit Pension Plan

The Corporation sponsors a noncontributory, defined-benefit pension plan, the Southwest Washington Health System Retirement Plan, now known as PeaceHealth SWHS Frozen DB Pension Plan (the Plan) effective January 30, 2015, covering all employees at PeaceHealth Southwest Medical Center who meet requirements as specified in the Plan. The assets of the Plan are available to pay the benefits of all eligible employees of the Plan. The Plan has two benefit structures that include a cash balance and a final average pay structure. Effective December 31, 2010, the Plan was frozen. No new participants are admitted to the Plan after this date. This event did not terminate the Plan. Benefits earned before the plan was frozen will continue to be paid as participants qualify to receive benefits.

A plan amendment was made effective December 31, 2016 to spin off a group of participants into PeaceHealth SWHS Frozen DB Pension Plan II. As of that date, the Plan was renamed PeaceHealth SWHS Frozen DB Pension Plan I. The PeaceHealth SWHS Plan I and Plan II are collectively referred as “the Plans.” Plan provisions are identical between the Plans. The plan split was effective January 1, 2017.

A plan amendment was adopted effective December 31, 2018 to terminate the PeaceHealth SWHS Frozen DB Pension Plan II subject to approval by the Internal Revenue Service and the Pension Benefit Guaranty Corporation (PBGC). During the year ended June 31, 2021, the Plan purchased annuities and paid benefits to satisfy the benefit obligation. The termination resulted in the realization of $25,792 in losses, which are recognized in other income (expense) on the consolidated statements of operations and changes in net assets without donor restrictions. The final settlement of remaining assets and expenses will occur during fiscal year 2022.

A plan amendment was adopted effective December 31, 2020 to terminate the PeaceHealth SWHS Frozen DB Pension Plan I subject to approval by the Internal Revenue Service and the Pension Benefit Guaranty Corporation (PBGC). Settlement is expected during fiscal year 2022.

(In thousands)

The following table sets forth disclosures related to the Plans in accordance with FASB ASC Paragraph 715-20-65, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of June 30, 2021 and 2020, measured as of January 1, 2021 and January 1, 2020, respectively:

		Years ended June 30	
		2021	**2020**
Change in project benefit obligation:			
Project benefit obligation (PBO) at beginning of period	$	276,859	253,275
Service cost		1,250	1,475
Interest cost		3,390	7,190
Actuarial loss on PBO		8,335	32,936
Benefits and administrative expenses paid		(97,133)	(18,017)
Projected benefit obligation at June 30	$	192,701	276,859
Change in fair value of plan assets:			
Fair return of assets at beginning of period	$	212,027	200,506
Actual return on plan assets		10,781	20,738
Employer contribution		63,556	8,800
Benefits paid		(95,597)	(15,625)
Administrative expenses		(1,536)	(2,392)
Fair value of assets at June 30	$	189,231	212,027
Reconciliation of funded status:			
Funded status	$	(3,470)	(64,832)
Net amount recognized	$	(3,470)	(64,832)
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension liability	$	3,470	64,832
Accumulated change in net assets		23,190	(38,173)

Net periodic benefit cost for the years ended June 30, 2021 and 2020 included the following components and is included in changes in net assets without donor restrictions:

		2021	**2020**
Service cost	$	1,250	1,475
Interest cost		3,390	7,190
Expected return on plan assets		(8,692)	(12,839)
Amortization of loss		7,870	7,560
Net periodic pension cost	$	3,818	3,386

(Continued)

(In thousands)

(b) Assumptions

The Corporation used the following actuarial assumptions to determine its benefit obligations at June 30, 2021 and 2020 with measurement dates of June 30, 2021 and 2020:

	2021	2020
Discount rate	Plan I 2.06%	Plan I 2.38% and Plan II 1.86%

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

	2021	2020
Discount rate	Plan I 2.38%	Plan I 3.30% and Plan II 3.26%
Expected long-term rate of return on plan assets	Plan I 6.8%	Plan 1 7.30% and Plan II 5.40%

This discount rate is based on a proprietary yield curve tool used by the Plans' actuary, which uses a composite of high-yield, investment-grade corporate bonds, and the projected payouts from the Plans to develop an equivalent yield rate to use in determining plan liabilities. For Plan I, the discount rate determined for the valuation at June 30, 2021, was reduced by 50 basis points as an approximation of the rates underlying the annuities to be purchased to settle the benefits for the Plan termination. For Plan II, the discount rate determined for the valuation at June 30, 2020, was reduced by 50 basis points as an approximation of the rates underlying the annuities to be purchased to settle the benefits for the Plan termination.

The expected long-term rate of return on plan assets was based on the asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. The actual return on pension plan assets was a gain of approximately 6.1% for Plan I during the year ended June 30, 2021. The actual return on pension plan assets was a gain of approximately 7.78% and 14.18% for Plan I and Plan II, respectively, during the year ended June 30, 2020. In the calculation of pension plan expense, the expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a four-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns and expected returns based on the long-term rate of return assumptions.

(Continued)

(In thousands)

(c) Pension Plan Assets

The asset allocation of the Corporation's pension plan at June 30, 2021 and 2020 is as follows:

		2021	2020
Cash equivalents	$	734	—
Equity securities		—	82,918
Debt securities		188,061	128,456
Others		436	653
Total	$	189,231	212,027

Pension plan assets are managed according to an investment policy adopted by the Plans' trustees. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objective of the Plans' trustees is to achieve the highest possible total return commensurate with safety and preservation of capital in real, inflation-adjusted terms. The objective includes having funds invested in the long term, which protect the principal and produce returns sufficient to meet future benefit obligations. The investment policy includes an asset allocation that includes equity securities, debt securities, and cash/other investments. In preparation for the termination of the Plan, management has updated the target allocation of investments to invest 100% of assets in debt securities and cash and cash equivalents.

In accordance with FASB ASC Topic 820, financial assets and financial liabilities measured at fair value are grouped in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels and the adoption of FASB ASC Topic 820 are further discussed in note 5.

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

- The fair value of equity and debt securities (mutual funds) are estimated using quoted market prices or other observable inputs when quoted market prices are unavailable.
- Private equity fund: Valued at the NAV as a practical expedient as supported by audited financial statements.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(In thousands)

The following table sets forth by level, within the fair value hierarchy, the Plans' assets at fair value as of June 30, 2021:

Assets		Total fair value		Level 1	Level 2	Level 3
Cash equivalents	$	734		734	—	—
Debt securities		188,061		—	188,061	—
Total plan assets at fair value		188,795	$	734	188,061	—
Investments at NAV		436				
Total plan assets	$	189,231				

The following table sets forth by level, within the fair value hierarchy, the Plans' assets at fair value as of June 30, 2020:

Assets		Total fair value		Level 1	Level 2	Level 3
Mutual funds:						
Equity securities	$	82,918		82,918	—	—
Debt securities		128,456		—	128,456	—
Total plan assets at fair value		211,374	$	82,918	128,456	—
Investments at NAV		653				
Total plan assets	$	212,027				

At June 30, 2021 and 2020, the Plans held $436 and $653, respectively, in a private equity investment that is not actively marketed on an open exchange. This investment consists of shares or units in an investment fund as opposed to direct interests in the fund's underlying holdings, which may be marketable. Due to the nature of this fund, the NAV is used as a practical expedient to measure fair value at June 30, 2021 and 2020. This private equity partnership does not allow for periodic redemptions but rather liquidates upon the termination date as stated in the partnership agreement. Therefore, the private equity investment is considered an illiquid investment. At June 30, 2021, the Corporation held $436 of a private equity limited partnership that had a termination date of June 2022.

(d) Cash Flows

The Corporation's policy with respect to funding the Plan is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended, plus such additional amounts deemed appropriate. In the start of fiscal year 2021, the Corporation contributed $10,000 to the Plan for the plan year ended December 31, 2019.

(In thousands)

Benefit payments are expected to be paid as follows for the fiscal years ended June 30:

		Pension benefits
2022	$	19,472
2023		8,354
2024		8,542
2025		8,743
2026		8,942
2027-2030		46,188

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

(11) Defined-Contribution Retirement Plans

PeaceHealth sponsors two defined-contribution retirement plans, the Southwest Washington Health System Retirement Plan and the PeaceHealth Plan. These plans cover substantially all employees of PeaceHealth meeting certain age and length of service requirements. Total defined-contribution retirement plan costs charged to operations were approximately $86,353 and $82,973 for the years ended June 30, 2021 and 2020, respectively, which are included in payroll taxes and benefits in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

PeaceHealth Deferred Compensation Plans

The estimated fair value associated with the plan assets of PeaceHealth's 457(b) and 457(f) postretirement savings plans, in the amount of approximately $84,764 and $65,043 at June 30, 2021 and 2020, respectively, is included in assets whose use is limited, cash equivalents and investments, with a corresponding amount included in other long-term liabilities. Contributions associated with these funds in 2021 and 2020 were $10,600 and $9,626, respectively, and are included in payroll taxes and benefits in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

(In thousands)

(12) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

		2021	2020
Purchase of property, plant, and equipment	$	3,079	4,734
Hospice and indigent care		15,398	12,923
Patient care		25,827	21,826
Children's Services		4,555	4,945
Training and education		2,688	3,020
Other		51,785	35,998
	$	103,332	83,446

Approximately $4,237 and $8,804 was released from restriction for capital expenditures made during 2021 and 2020, respectively.

Charitable Gift Annuities

PeaceHealth has been granted a license by the state of Washington, Office of Insurance Commissioner, to issue Charitable Gift Annuities in support of its charitable activities. The Corporation has delegated all its charitable fundraising activities to several fundraising foundations whose net assets held for the beneficial interest of PeaceHealth are shown on the consolidated balance sheets of the Corporation. The liability for annuity contracts issued under the PeaceHealth license and the separately maintained reserve accounts are recorded on the books of PeaceHealth. As of June 30, 2021 and 2020, the following liabilities for annuity contracts issued under the PeaceHealth license and reserve account investments were recorded:

		2021	2020
State of Washington gift annuity liabilities (other long-term liabilities)	$	443	462
Gift annuity reserve accounts (other assets whose use is limited, cash, and investments)		538	473

(13) Commitments and Contingent Liabilities

(a) Litigation

Various laws and regulations of federal, state, and local governments govern the healthcare industry. These laws and regulations are subject to ongoing government review and interpretation, as well as regulatory actions unknown or unasserted at this time. The Corporation is also involved in litigation and regulatory investigations arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's future financial position or results of operations.

(b) Collective Bargaining Agreements

Approximately 56% and 55% of the Corporation’s employees are covered under collective bargaining agreements, including nurses, professional employees, and service employees as of June 30, 2021 and 2020, respectively. The Corporation is currently negotiating certain expired and expiring collective bargaining agreements. The Corporation’s various collective bargaining agreements expire between September 2021 and March 2024.

(14) Insurance Coverages

In connection with the self-insurance program, the Corporation has accrued estimates for asserted and incurred but not reported claims, including both the expected liability under each claim and the cost to administer the claim. Self-insured professional and general liability retention in 2021 and 2020 was $5,000 per occurrence and $25,000 in aggregate. Individual general and professional liability claims in excess of the above self-insured retention levels are insured through claims-made excess insurance policy.

The Corporation also self-insures all or a portion of liabilities for medical and dental benefit plans, unemployment, and workers’ compensation claims. Funding levels and liabilities are determined based on actuarial studies.

Based on actuarial studies, the Corporation has recorded an undiscounted liability for all of the self-insurance programs of approximately $90,043 and $95,935 at June 30, 2021 and 2020, respectively. The liabilities are classified within other current liabilities and other long-term liabilities based on the historical amounts paid within one year. Total current amounts included in other current liabilities were approximately $31,663 and $26,018 at June 30, 2021 and 2020, respectively. Management has recorded amounts receivable from excess insurance carriers totaling approximately $4,349 and $11,061 as of June 30, 2021 and 2020, respectively, which is included in other receivables in the accompanying consolidated balance sheets.

The Corporation is a minority investor in American Excess Insurance Exchange (AEIX). AEIX is a risk retention group owned by a group of healthcare providers and provides them with excess professional liability insurance coverage. The Corporation accounts for its interest in AEIX on the equity method of accounting less mandatory withdrawal penalties and an estimated discount to present value. As of June 30, 2021 and 2020, the carrying value of AEIX was approximately $2,479 and $2,135, respectively, and is recorded in investments in joint ventures and other on the consolidated balance sheets. Investment income from AEIX is recorded as an adjustment to supplies and other operating expenses in the accompanying consolidated statements of operations and change in net assets without donor restrictions.

(In thousands)

(15) Functional Expenses

The Corporation provides general healthcare services to residents within its geographic location. Operating expenses related to providing these services classified by their natural classification on the consolidated statements of operations and changes in unrestricted net assets are presented by their functional classifications as follows for the year ended June 30:

		2021		
		Patient care	**General and administrative**	**Total expenses**
Salaries and wages	$	1,457,731	92,381	1,550,112
Payroll taxes and benefits		159,260	141,563	300,823
Supplies		463,846	888	464,734
Purchased services		342,236	78,284	420,520
Other		186,256	10,185	196,441
Depreciation and amortization		112,493	38,175	150,668
Interest and amortization of deferred financing costs		830	38,083	38,913
Total	$	2,722,652	399,559	3,122,211

		2020		
		Patient care	**General and administrative**	**Total expenses**
Salaries and wages	$	1,350,567	96,326	1,446,893
Payroll taxes and benefits		154,876	142,281	297,157
Supplies		408,253	765	409,018
Purchased services		306,717	46,150	352,867
Other		179,590	15,918	195,508
Depreciation and amortization		101,127	44,569	145,696
Interest and amortization of deferred financing costs		516	33,851	34,367
Total	$	2,501,646	379,860	2,881,506

(16) Subsequent Events

In connection with the preparation of the consolidated financial statements in accordance with FASB ASC Topic 855, *Subsequent Events*, the Corporation has evaluated subsequent events through September 24, 2021, which is the date the consolidated financial statements were issued.