



SAMARITAN HEALTH SERVICES, INC.

Consolidated Financial Statements

December 31, 2021 and 2020

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Directors
Samaritan Health Services, Inc.:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Samaritan Health Services, Inc. (the System), which comprise the consolidated balance sheets as of December 31, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the System as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules of balance sheet information and statement of operations and changes in net assets without donor restrictions information on pages 34 through 36 are presented for purposes of additional analysis and are 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 as a whole.

KPMG LLP

Portland, Oregon
March 28, 2022

SAMARITAN HEALTH SERVICES, INC.

Consolidated Balance Sheets

December 31, 2021 and 2020

(Dollars in thousands)

Assets	2021	2020
Current assets:		
Cash and cash equivalents	\$ 288,212	275,420
Short-term investments	105,923	108,258
Patient accounts receivable, net	98,221	76,550
Other receivables	36,098	30,656
Inventories	19,363	16,598
Other current assets	10,422	9,810
Total current assets	558,239	517,292
Assets limited as to use:		
Restricted by donor for capital acquisition	2,119	1,625
Restricted by donor for permanent endowment	8,667	7,930
Statutory deposits and other restricted investments	15,152	9,719
Total assets limited as to use	25,938	19,274
Long-term investments	143,126	139,729
Property, plant, and equipment, net	346,703	348,787
Operating lease, right of use assets, net	14,647	14,717
Other assets	16,887	16,451
Total assets	\$ 1,105,540	1,056,250

SAMARITAN HEALTH SERVICES, INC.

Consolidated Balance Sheets

December 31, 2021 and 2020

(Dollars in thousands)

Liabilities and Net Assets	2021	2020
Current liabilities:		
Accounts payable	\$ 61,189	50,776
Accrued salaries, wages, and benefits	77,380	68,765
Estimated third-party payor settlements	18,593	5,048
Liability for unpaid medical claims	36,240	38,704
Other current liabilities	93,013	74,439
Current portion of operating lease liabilities	3,491	2,860
Current portion of long-term debt	9,334	8,443
Total current liabilities	<u>299,240</u>	<u>249,035</u>
Long-term debt, less current portion	200,062	206,491
Long-term operating lease liabilities, less current portion	11,156	11,857
Professional liability, less current portion	18,732	16,465
Pension liability	11,382	23,557
Other liabilities	18,973	60,911
Total liabilities	<u>559,545</u>	<u>568,316</u>
Net assets:		
Controlling interests	526,545	470,328
Noncontrolling interests	701	695
Net assets without donor restrictions	<u>527,246</u>	<u>471,023</u>
Net assets with donor restrictions	18,749	16,911
Total net assets	<u>545,995</u>	<u>487,934</u>
Total liabilities and net assets	<u>\$ 1,105,540</u>	<u>1,056,250</u>

See accompanying notes to consolidated financial statements.

SAMARITAN HEALTH SERVICES, INC.

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

Years ended December 31, 2021 and 2020

(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
Revenue:		
Net patient service revenue	\$ 769,897	698,356
Premium revenue	551,988	502,625
Other operating revenue	<u>109,536</u>	<u>138,098</u>
Total revenue	<u>1,431,421</u>	<u>1,339,079</u>
Expenses:		
Salaries and wages	512,352	474,799
Employee benefits	70,925	70,237
Medical services	338,772	312,915
Supplies	201,844	168,699
Purchased services	138,248	123,484
Utilities, insurance, and other	93,804	88,366
Depreciation	35,193	35,607
Interest and amortization	<u>7,442</u>	<u>9,378</u>
Total expenses	<u>1,398,580</u>	<u>1,283,485</u>
Excess of revenue over expenses from operations	<u>32,841</u>	<u>55,594</u>
Other income (expense), net:		
Investment income	13,548	10,482
Other income (expense)	<u>2,495</u>	<u>(995)</u>
Total other income (expense), net	<u>16,043</u>	<u>9,487</u>
Excess of revenue over expenses	48,884	65,081
Change in net unrealized gains and (losses) on fixed income investments	(3,984)	2,146
Net assets released from restrictions used for capital acquisition	2,575	2,213
Change in pension liability	9,403	972
Distributions to noncontrolling interest in consolidated joint ventures	(1,208)	(1,315)
Other	<u>553</u>	<u>(1,471)</u>
Change in net assets without donor restrictions	\$ <u>56,223</u>	\$ <u>67,626</u>

See accompanying notes to consolidated financial statements.

SAMARITAN HEALTH SERVICES, INC.

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2021 and 2020

(Dollars in thousands)

	Net assets without donor restrictions		Net assets with donor restrictions	Total net assets
	Controlling interest	Noncontrolling interest		
December 31, 2019	\$ 402,326	1,071	17,219	420,616
Excess of revenue over expenses	64,142	939	—	65,081
Change in net unrealized gains and (losses) on investments	2,146	—	(683)	1,463
Net assets released from restrictions	2,213	—	(3,526)	(1,313)
Change in pension liability	972	—	—	972
Distributions to noncontrolling interest in consolidated joint ventures	—	(1,315)	—	(1,315)
Contributions	—	—	4,448	4,448
Other	(1,471)	—	(547)	(2,018)
Change in net assets	68,002	(376)	(308)	67,318
December 31, 2020	470,328	695	16,911	487,934
Excess of revenue over expenses	47,670	1,214	—	48,884
Change in net unrealized gains and (losses) on fixed income investments	(3,984)	—	219	(3,765)
Net assets released from restrictions	2,575	—	(3,386)	(811)
Change in pension liability	9,403	—	—	9,403
Distributions to noncontrolling interest in consolidated joint ventures	—	(1,208)	—	(1,208)
Contributions	—	—	5,005	5,005
Other	553	—	—	553
Change in net assets	56,217	6	1,838	58,061
December 31, 2021	\$ 526,545	701	18,749	545,995

See accompanying notes to consolidated financial statements.

SAMARITAN HEALTH SERVICES, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2021 and 2020

(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 58,061	67,318
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	34,433	38,467
Net realized and unrealized gains on investments	(7,975)	(8,560)
(Gain) loss on disposal of assets	(2,657)	2,294
Equity (gain) loss on joint ventures	(862)	1,468
Distributions to noncontrolling interest	1,208	1,315
Restricted contributions	(217)	(4,448)
Changes in operating assets and liabilities:		
Patient accounts receivable	(21,671)	4,298
Other receivables	(5,442)	5,875
Inventories	(2,765)	(248)
Other assets	(812)	(295)
Accounts payable	8,122	11,295
Accrued salaries, wages, and benefits	8,615	13,946
Estimated third-party payor settlements	13,545	(2,454)
Liability for unpaid medical claims	(2,464)	10,346
Professional liability	2,069	(625)
Pension liability	(12,175)	(487)
Other liabilities	(23,236)	90,260
Net cash provided by operating activities	<u>45,777</u>	<u>229,765</u>
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(29,954)	(23,899)
Proceeds from sale of property, plant, and equipment	4,206	105
Distributions from joint ventures, net	696	609
Purchase of investments	(131,116)	(269,196)
Proceeds from sale of investments	<u>131,365</u>	<u>211,316</u>
Net cash used in investing activities	<u>(24,803)</u>	<u>(81,065)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	—	80,473
Principal payments on long-term debt	(7,191)	(97,877)
Cash received from contributions	217	4,448
Payment of financing fees	—	(1,086)
Distributions to noncontrolling interest in consolidated joint ventures	<u>(1,208)</u>	<u>(1,315)</u>
Net cash used in financing activities	<u>(8,182)</u>	<u>(15,357)</u>
Increase in cash and cash equivalents	12,792	133,343
Cash and cash equivalents, beginning of year	<u>275,420</u>	<u>142,077</u>
Cash and cash equivalents, end of year	\$ <u>288,212</u>	\$ <u>275,420</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amount capitalized	\$ 7,737	11,326
Noncash transactions:		
Finance and operating lease right of use assets acquired	2,894	—
Change in accounts payable related to acquisition of property, plant, and equipment	(2,291)	2,979

See accompanying notes to consolidated financial statements.

SAMARITAN HEALTH SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(Dollars in thousands)

(1) Organization and Basis of Consolidation

Samaritan Health Services, Inc. (SHS) is an Oregon nonprofit corporation formed for the purpose of providing a comprehensive system of healthcare and healthcare-related services to residents of the Willamette Valley, the Oregon coast, and other Oregon communities. The consolidated financial statements include SHS and its direct affiliates, the most significant of which are as follows:

- Good Samaritan Regional Medical Center (GSRMC)
- Mid-Valley Healthcare, Inc. (MVH)
- Samaritan Albany General Hospital (SAGH)
- Samaritan North Lincoln Hospital (SNLH)
- Samaritan Pacific Communities Hospital (SPCH)
- InterCommunity Health Plans (IHP)
- Paradigm Indemnity Corporation (PIC)
- Samaritan Health Plans, Inc. (SHP)
- Samaritan Enterprises, LLC
- Albany General Hospital Foundation
- Good Samaritan Hospital Foundation
- North Lincoln Hospital Foundation
- Lebanon Community Hospital Foundation.

The Obligated Group, which was formed to facilitate borrowing by the health system, includes SHS, GSRMC, MVH, SAGH, and SNLH.

All material interaffiliate accounts and transactions have been eliminated upon consolidation.

(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. Key estimates include the valuation allowances for patient accounts receivable, fair value of investments, liability for unpaid medical claims, professional liability, and pension liability. Actual results could differ significantly from those estimates.

(b) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid investments with original maturities of three months or less. Cash equivalents exclude amounts held for donor or trustee restrictions and amounts held within the investment portfolio.

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Notes to Consolidated Financial Statements

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(Dollars in thousands)

SHS maintains cash and cash equivalents on deposit at financial institutions, which often exceeds the limits insured by the Federal Deposit Insurance Corporation. This exposes SHS to potential risk of loss in the event the financial institution becomes insolvent.

(c) Inventories

Inventories, consisting principally of surgical, pharmacy, and biomedical supplies, and home medical equipment, are carried at the lower of cost or market value.

(d) Investments

Investments are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on equity securities, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or by law. Unrealized gains and losses on fixed income are excluded from excess of revenue over expenses.

A decline in fair value of a debt security below cost that is deemed to be other than temporary is recorded as an impairment loss and is included in excess of revenue over expenses. A new cost basis is then established for the security. To determine whether impairment is other than temporary, SHS considers whether it has the ability and intent to hold the investment until a market price recovery and whether evidence indicating the cost of the investment is recoverable and outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, and the general market conditions in the geographic area or industry in which the investee operates.

(e) Assets Limited as to Use

Assets limited as to use include assets restricted by donors for capital acquisition and permanent endowment funds, statutory deposits for IHP and SHP, and other restricted investments.

(f) Property, Plant, and Equipment

Property, plant, and equipment acquisitions are recorded at cost. Donated property, plant, and equipment items are recorded on the basis of estimated fair value at the date of donation. Maintenance and repairs are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is recorded as operating income or expense.

Depreciation is computed using the straight-line method over estimated useful lives as follows: land improvements, 5 to 20 years; building and improvements, 5 to 70 years; and equipment, 3 to 20 years. Equipment under finance lease obligations or leasehold improvements for operating leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the consolidated statements of operations and changes in net assets without donor restrictions.

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(Dollars in thousands)

Interest cost incurred on borrowed funds during the period of construction of significant capital assets is capitalized as a component of the cost of acquiring those assets. During 2021 and 2020, \$0 and \$424 interest cost was capitalized, respectively.

(g) *Liability for Unpaid Medical Claims and Medical Services Expense*

Medical services expense is recognized in the period in which services are provided. The liability for unpaid medical claims includes an estimate of the cost of services provided that have been incurred but not reported, which is based on actuarial projections of costs using historical paid claims data. Estimates are regularly monitored and reviewed and as settlements are made or estimates adjusted, differences are reflected in current operations. Estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of paid claims is dependent on future developments, management is of the opinion that the liability for claims is adequate to cover such claims.

(h) *Professional Liability*

The accrual for estimated professional liability claims includes an estimate of the ultimate costs for both reported claims and claims that have been incurred but not reported, which is based on actuarial projections of costs using historical paid claims data. Estimates are regularly monitored and reviewed, and as settlements are made or estimates adjusted, differences are reflected in current operations. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of paid claims is dependent on future developments, management is of the opinion that the liability for claims is adequate to cover such claims.

(i) *Impairment of Long-Lived Assets*

Long-lived assets, such as property, plant, and equipment and purchased intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or the remaining lives should be adjusted. No impairment has been recognized in 2021 or 2020.

(j) *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 maintained in perpetuity. Income on the related investments is accounted for in accordance with donor instructions.

(k) *Excess of Revenue over Expenses from Operations*

Excess of revenue over expenses from operations excludes certain items that SHS deems to be outside the scope of its primary business. Investment income includes interest income, dividends, realized gains and losses on investments, and unrealized gains and losses on equity investments. Other income primarily includes net rental income, income from joint ventures and certain expenses associated with the defined benefit pension plan.

SAMARITAN HEALTH SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(Dollars in thousands)

(l) Excess of Revenue over Expenses

The performance indicator for SHS is the excess of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses, consistent with industry practice and generally accepted accounting principles, include unrealized gains and losses on debt investments, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purposes of acquiring such assets), change in pension liability, and distributions to noncontrolling interest in consolidated joint ventures.

(m) Net Patient Service Revenue and Charity Care

SHS has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported net of contractual allowances and discounts at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Contractual adjustments arising under reimbursement arrangements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

SHS provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. SHS provides care to other uninsured or underinsured patients who do not meet the criteria of the charity care policy, which results in payments that are less than established rates. These adjustments represent implicit price concessions.

(n) Premium Revenue

Premium revenue consists of premiums paid to IHP and SHP by individuals and agencies of the federal and state governments for healthcare services as well as commercial businesses on behalf of their employees. Premium revenue is recognized during the month for which the premium is associated.

IHP administers healthcare benefits to certain members of the Oregon Health Plan, placing emphasis on preventative medicine and health education programs for the benefit of the members. During 2012, IHP was selected to provide the infrastructure and delivery system for a community coordinated care organization (CCO). In August 2012, this CCO took over for the previous Medicaid plan managed by IHP. In 2019, the State of Oregon renewed the contract with the CCO to provide care to its members for 5 years beginning January 1, 2020.

SHP premiums include revenue based on predetermined rates under Medicare contracts and large and small group commercial contracts and are subject to audit and possible retroactive adjustments, which represent variable consideration under the contract. Provision has been made for estimated retroactive adjustments. In 2021 and 2020, SHP premium revenue included \$3,458 and \$3,669, respectively, relating to favorable settlements of prior years' reimbursement from Medicare.

SAMARITAN HEALTH SERVICES, INC.

Notes to Consolidated Financial Statements

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(Dollars in thousands)

(o) Income Taxes

SHS and its affiliates are exempt from taxation under the provisions of the Internal Revenue Code and are generally not subject to federal or state income taxes, except for SHP, which is a taxable Oregon nonprofit corporation, and Samaritan Enterprises, LLC, which is a taxable corporation. Income tax expense of \$49 and \$3,311 in 2021 and 2020, respectively, has been recorded in utilities, insurance, and other in the consolidated statements of operations and changes in net assets without donor restrictions.

In addition, SHS is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business and, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

U.S. generally accepted accounting principles require SHS' management to evaluate tax positions and recognize a tax liability (or an asset) if SHS has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS). Management has analyzed tax positions taken by SHS and has concluded that as of December 31, 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or an asset) or disclosure in the consolidated financial statements. SHS is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. SHS' management believes it is no longer subject to income tax examinations for years prior to 2018.

(p) Donor-Restricted Gifts

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

(3) Net Patient Service Revenue

SHS has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

(a) Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries at GSRMC and SAGH are paid based on prospectively determined rates. These rates vary according to a patient classification system that is based on the resources used to treat Medicare patients in those classifications. Disproportionate share hospital and graduate medical education adjustments are

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(Dollars in thousands)

reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

Three of SHS' facilities (MVH, SPCH, and SNLH) are critical access hospitals (CAHs). CAHs are exempt from both inpatient and outpatient prospective payment systems. Inpatient and outpatient services rendered to Medicare program beneficiaries at CAHs are reimbursed based on costs. CAHs are reimbursed based on tentative rates, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

(b) Medicaid

Services rendered to Medicaid program beneficiaries at GSRMC and SAGH are paid at prospectively determined rates. The hospitals are reimbursed at a tentative rate for inpatient outlier cases, with final settlement determined after submission of annual cost reports and audits thereof by the state's Medicaid agency.

Inpatient and outpatient services rendered to Medicaid program beneficiaries at CAHs are reimbursed based on costs. CAHs are reimbursed based on tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the state's Medicaid agency.

Revenue from the Medicare and Medicaid programs accounted for approximately 42% and 10%, respectively, of SHS' net patient service revenue in 2021, and 42% and 11%, respectively, of SHS' net patient service revenue in 2020. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Management records estimates in the amount of related revenues that are probable of not subsequently being reversed. In 2021 and 2020, net patient service revenue includes (\$6,054) and \$3,387, respectively, relating to (unfavorable) and favorable settlements of prior years' reimbursement from the Medicare and Medicaid programs.

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

Accounts receivable are reduced for explicit and implicit price concessions. In evaluating the contract price of accounts receivable, SHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate contract price. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the reductions to the contract price.

For receivables associated with self-pay patients (which include patients without insurance), SHS records an implicit price concession, in the period of service. Such concessions are based on past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

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For third-party receivables associated with services provided to patients who have third-party coverage, SHS analyzes contractually due amounts after explicit price concessions and provides an implicit price concession which primarily relates to self-pay patient balances that will remain after payments from the third-party payor have been collected.

Management evaluates revenue by nature in the following categories:

	<u>2021</u>	<u>2020</u>
Net patient service revenue by payor:		
Medicare	\$ 324,007	294,438
Medicaid	76,184	79,386
Self-Pay	2,381	3,430
Other third-party payors, primarily commercial	<u>367,325</u>	<u>321,102</u>
	<u>\$ 769,897</u>	<u>698,356</u>
	<u>2021</u>	<u>2020</u>
Total revenue:		
Inpatient revenue, net	\$ 248,626	243,148
Outpatient revenue, net	521,271	455,208
Premium revenue	551,988	502,625
Retail pharmacy revenue	75,790	63,314
Other operating revenue	<u>33,746</u>	<u>74,784</u>
	<u>\$ 1,431,421</u>	<u>1,339,079</u>

SHS has contracted to sell certain patient accounts receivable accounts to a third party. The contracts include a right for the third party to recourse the receivables to SHS in the event of patient default. SHS has estimated a reserve for such recourse of \$2,148 and \$2,555, respectively, at December 31, 2021 and 2020 as part of patient accounts receivable, net in the consolidated balance sheets.

(4) Samaritan North Lincoln Affiliation Agreement

In February of 2016, North Lincoln Health District (NLH-District) transferred real property, equipment, and assets including control of the NLH-District Foundation to SHS under a Memorandum of Understanding signed in September of 2015. This transfer was subject to commencement of construction of a new CAH to replace the existing North Lincoln Hospital. In addition, the existing lease terminated as part of the agreement and a portion of the tax revenue from the NLH-District will continue to be paid to SHS. The new hospital has been constructed and was opened in February 2020.

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Additionally, SNLH has recorded \$1,224 and \$1,266 as other operating revenue related to these property tax operating levy amounts provided by NLH-District during 2021 and 2020, respectively. SNLH has recorded \$1,215 and \$1,210 related to this operating tax levy in other receivables in the consolidated balance sheets as of December 31, 2021 and 2020, respectively.

(5) Samaritan Pacific Communities Affiliation Agreement

On January 1, 2002, SHS entered into a long-term management agreement with Pacific Communities Health District (PCH-District) whereby SHS operates the hospital as Samaritan Pacific Communities Hospital. SHS has agreed to operate SPCH for a period of 30 years, with a termination date of December 31, 2031. Both parties have the right to terminate the agreement without cause with five years' written notice at any time after December 31, 2006. Both parties have the right to terminate the lease for cause with one year's written notice.

Effective January 1, 2002, PCH-District made a net working capital transfer to SHS of certain current assets and current liabilities related to the operation of SPCH. Upon termination of the agreement, SHS is required to remit the balance of the adjusted net working capital account back to PCH-District and sell to PCH-District all fixed assets acquired after commencement of the agreement at half of net book value. Neither party has elected to terminate the contract as of December 31, 2021. The net working capital transfer balance of \$4,694 and \$4,713 is included in other liabilities in the consolidated balance sheets as of December 31, 2021 and 2020, respectively.

As provided by the agreement, PCH-District is required to make payments to SHS for 70% of PCH-District's maximum annual authorized property tax operating levy. SPCH has recorded \$419 and \$997 as other operating revenue related to the property tax operating levy amount provided by PCH District during 2021 and 2020, respectively. Receivables of \$0 and \$1,006 related to this operating tax levy are included in other receivables in the consolidated balance sheets as of December 31, 2021 and 2020, respectively.

(6) Charity Care and Other Community Benefit Services

As part of its charitable mission to enhance and improve health in the community, SHS provides healthcare services to people in need, including charity care for those patients needing financial assistance and services to patients covered by Medicare, Medicaid, and other public programs where the costs of care exceed reimbursement from these programs. In addition, SHS sponsors other activities that benefit the community.

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The following represents the estimated cost of providing these services and activities, along with descriptions of selected activities during 2021 and 2020:

	2021		
	Community benefit costs	Offsetting revenue	Net community benefit costs
Charity care and public programs:			
Charity care	\$ 12,231	—	12,231
Medicaid	149,677	108,585	41,092
Medicare	440,123	370,393	69,730
Other public programs	29,683	23,380	6,303
	<u>\$ 631,714</u>	<u>502,358</u>	<u>129,356</u>
	2020		
	Community benefit costs	Offsetting revenue	Net community benefit costs
Charity care and public programs:			
Charity care	\$ 12,516	—	12,516
Medicaid	140,696	112,615	28,081
Medicare	336,237	288,596	47,641
Other public programs	26,117	20,314	5,803
	<u>\$ 515,566</u>	<u>421,525</u>	<u>94,041</u>

(a) Charity Care

Consistent with its charitable mission, SHS provides medically necessary patient care services that are discounted or free of charge to uninsured or underinsured persons who qualify for assistance due to insufficient resources. Charity care is considered the last “payer” when adjudicating a bill. The criteria for charity care assistance is determined based on income, other medical bills and/or other information supporting a patient’s ability or inability to pay for services provided. In addition to a 20% discount for all uninsured patients, SHS makes full subsidies available for uninsured and underinsured patients whose household income is at or below 250% of the federal poverty level (FPL); 75% discount of uninsured and underinsured patients whose household income is between 251-300%; 60% discount of uninsured and underinsured patients whose household income is between 301-400% of the FPL.

In addition to charity care, SHS provides services under various public programs for financially needy patients. The cost of providing services to Medicaid beneficiaries, including patients covered by Oregon’s and other states’ Medicaid programs, generally exceeds the reimbursement from these programs. SHS serves a significant population of Medicare beneficiaries, including those covered under traditional Medicare as well as Medicare managed care programs. The cost of treating these

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Medicare patients at certain of SHS' hospitals exceeds government payments received. Other public programs include Tricare, Veteran's Administration, and other government-sponsored programs. The cost of healthcare services for patients covered under these programs generally exceeds reimbursement.

The estimated cost of services provided under these programs is determined based on the relationship of total operating costs to gross charges, called the cost-to-charge ratio. Total operating costs for purposes of this ratio exclude costs associated with community benefit activities, such as community health services, medical education, and cash or in-kind contributions to other charitable organizations, as described below. Total cost is then offset with any related reimbursements to arrive at net community benefit cost.

(b) Other Benefits to the Community

Community health improvement services include community health education and clinics, such as classes and workshops on health topics for little or no charge, health screenings, support groups, resource centers, and medical libraries.

Health professions education includes programs to train medical students, nurses, and other health professionals, including students in imaging, pharmacy, physical rehabilitation, laboratory, and other areas.

Subsidized health services are clinical programs provided despite a financial loss because the service is needed in the community. Examples include emergency and trauma care, hospice and home healthcare, women's and children's services, behavioral health services, and outpatient clinic services.

Cash and in-kind contributions to charitable organizations include grants to community organizations that are selected by SHS through an application process through each hospital's social accountability committee. Applications from community organizations are evaluated based on meeting identified community health needs. Organizations that receive funding are required to report on their use of the funds. Cash contributions also include funds donated to community organizations that provide health-related services in the hospital service areas. In-kind contributions include providing free medications to individuals in need who are identified through community outreach programs and regular free health clinics.

Other community benefit activities include research, community building activities, and community benefit operations. Research includes health-related studies or trials whose results benefit the public. Community building activities include community support, coalition building, and workforce development activities. Community benefit operations include SHS staff whose function is to coordinate and lead efforts to promote and track the organization's community benefit activities.

(7) Investments

Assets limited as to use that are held by trustee include funds held based in health plan statutory deposit requirements.

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IHP, as required by the Oregon Health Plan, has deposits with the State of Oregon of \$14,705 and \$9,272 as of December 31, 2021 and 2020, respectively. SHP is required to keep investments on deposit in the states where it is licensed and has deposits of \$275 as of December 31, 2021 and 2020. Additionally, restricted reserves include miscellaneous SHS deposits of \$75 in 2021 and 2020.

There were no significant gross unrealized losses at December 31, 2021 or 2020.

(8) Fair Value of Financial Instruments

FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, provides the framework for measuring fair value. That framework provides 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 unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that SHS has the ability to access.

Level 2 – Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2021 and 2020.

Cash equivalents: Valued at fair value based on face value or cost plus accrued interest, which approximates fair value because of the short maturity of these investments

Certificates of deposit: Valued at current redemption value

Mutual funds: Valued at the net asset value (NAV) of shares held at year-end, based on published market quotations on active markets

Fixed income: Valued at fair value based on quoted market prices in active or inactive markets.

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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 SHS 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. There were no changes in the hierarchy classification below from 2020 to 2021.

The following table presents the balances of financial assets and liabilities measured or disclosed at fair value on a recurring basis at December 31, 2021:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Cash equivalents	\$ 3,431	3,431	—	—
Certificates of deposit	4,402	—	4,402	—
Mutual funds:				
Domestic equities	104,392	104,392	—	—
International equities	17,445	17,445	—	—
Domestic debt securities	28,421	28,421	—	—
Fixed income:				
U.S. government obligations	27,427	27,427	—	—
Domestic corporate obligations	87,821	—	87,821	—
Municipals	1,648	—	1,648	—
Total assets	\$ <u>274,987</u>	<u>181,116</u>	<u>93,871</u>	<u>—</u>

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The following table presents the balances of financial assets and liabilities measured or disclosed at fair value on a recurring basis at December 31, 2020:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Cash equivalents	\$ 6,756	6,756	—	—
Certificates of deposit	3,973	—	3,973	—
Mutual funds:				
Domestic equities	108,630	108,630	—	—
International equities	17,181	17,181	—	—
Domestic debt securities	25,255	25,255	—	—
Fixed income:				
U.S. government obligations	19,673	19,673	—	—
Domestic corporate obligations	85,642	—	85,642	—
Municipals	151	—	151	—
Total assets	\$ <u>267,261</u>	<u>177,495</u>	<u>89,766</u>	<u>—</u>

(9) Property, Plant, and Equipment

Property, plant, and equipment comprise the following at December 31:

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 52,617	53,412
Buildings and leasehold improvements	442,596	442,259
Furniture and equipment	262,085	249,464
Construction in progress	24,602	7,914
	781,900	753,049
Less:		
Accumulated depreciation	435,197	404,262
	\$ <u>346,703</u>	<u>348,787</u>

There were capital expenditure purchase commitments outstanding as of December 31, 2021 for various construction and equipment projects. The estimated cost to complete such projects at December 31, 2021 was \$9,983, of which \$9,379 was contractually committed.

(10) Line of Credit

SHS may borrow up to \$16,000 under its line of credit agreement. There were no outstanding borrowings against the line at December 31, 2021 and 2020, respectively.

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(11) Long-Term Debt

Long-term debt comprises the following at December 31:

	2021	2020
Oregon Facilities Authority Revenue Bonds, Series 2020A 5.00%, principal maturing in varying annual amounts, and 2020B, due October 2046, secured by an interest in gross revenue	\$ 69,465	69,465
Oregon Facilities Authority Revenue Bonds, Series 2016 5.00%, principal maturing in varying annual amounts, due October 2046, secured by an interest in gross revenue	77,235	77,235
Oregon Facilities Authority Revenue Bonds, Series 2014, 2.3%, principal maturing in varying annual amounts, due December 2039, secured by an interest in gross revenue	14,944	15,574
Oregon Facilities Authority, SNAP Revenue Bond, Series A, 3.80% resetting every seven years, principal maturing in varying monthly amounts, due September 2034, unsecured	8,570	9,083
Loan payable, 4.31%, interest payable monthly, due March 2032, secured by real estate	1,859	1,999
Loan payable, 5.01%, payable in monthly installments of \$12, due with balloon payment of \$1,514 in 2023, secured by real estate	1,624	1,683
Obligations under finance leases and other, secured by related equipment	18,279	20,993
Other debt	1,371	1,615
Deferred financing fees	(1,801)	(1,966)
Unamortized premium on bonds, net	17,850	19,253
	209,396	214,934
Less current portion	9,334	8,443
	\$ 200,062	206,491

The Obligated Group is required to satisfy certain measures of financial performance as long as the bonds are outstanding under the Master Trust Indenture. At December 31, 2021 and 2020, management believes that the Obligated Group was in compliance with the terms of its debt agreements.

The Oregon Facilities Authority Revenue Bonds, Series 2020A and 2020B (2020 Bonds) were issued in July 2020 in the amount of \$69,465 and generated a premium of \$11,008. Interest is paid semiannually, and principal is paid annually beginning October 2023 and carries an interest rate of 5.00%. The proceeds

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from the 2020 Bonds were used to refund a portion of the Oregon Facilities Authority Revenue Bonds, Series 2016 (2016 Bonds), and the remainder of the Oregon Facilities Authority Revenue Refunding Bonds, Series 2010 (2010 Bonds) and to pay expenses incurred with the issuance.

The Oregon Facilities Authority Revenue Bonds, Series 2016 (2016 Bonds) were issued in November 2016 in the amount of \$78,265 and generated a premium of \$11,268. Interest is paid semiannually, and principal is paid annually beginning October 2017 and carries an interest rate of 5.00%. The 2016 Bonds maturing in the years 2030, 2035, and 2040 are subject to mandatory redemption and sinking fund requirements beginning October 1, 2026. The proceeds from the 2016 Bonds were used to refund the remainder of the Hospital Facilities Authority of Benton County, Oregon Revenue and Refunding Bonds, Series 1998 (1998 Bonds) and the callable portion of The Oregon Facilities Authority Revenue Refunding Bonds, Series 2010 (2010 Bonds), finance certain capital construction projects, including a replacement CAH in Lincoln City, remodel the MVH emergency room and operating room, private room conversions at GSRMC and AGH, Sexual Assault Nurse Examiners Center, and to pay expenses incurred with the issuance. During 2020, SHS refinanced a portion of the bonds in the amount of \$1,030 as part of the 2020 Bond issue described above.

The Oregon Facilities Authority Revenue Bonds, Series 2014 (2014 Bonds) were issued in December 2014 in the amount of \$19,000. Interest and principal payments on the 2014 Bonds are made monthly to the lender. Interest and principal is paid monthly beginning January 2015 and carries an average interest rate of 2.3% and 2.81% in 2021 and 2020 respectively. In 2021, SHS renegotiated the interest rate to 2.3% under the terms of the issuance. The 2014 Bonds are paid monthly and mature in 2028. The proceeds from the 2014 Bonds were used to finance certain capital construction projects at GSRMC and to pay expenses incurred with the issuance.

The Oregon Facilities Authority SNAP Revenue Bond, Series A bonds (Samaritan Health Services Project) (2009 Bonds) were issued in September 2009 in the amount of \$15,800. Payments on the 2009 Bonds are made monthly and carry an initial interest rate of 4.4%. In 2017, SHS and the lender agreed to an interest rate of 3.80% per annum for seven years and to adjust the reset period going forward to seven years. The proceeds from the 2009 Bonds were restricted for capital expenditures, primarily the construction of a facility that is owned by SHS and leased to Western Health Sciences University, and to pay expenses incurred with the issuance.

Included in debt is \$11,070 and \$15,952 at December 31, 2021 and 2020, respectively, related to a finance lease and debt agreement with Key Government Finance, Inc. for information systems to transform healthcare. The debt is a maximum \$45,045 master lease facility with 51.70% secured under the Master Trust Indenture and 48.3% secured as purchase-money security interest of leased assets under finance lease obligations. Each draw is individually payable over a 10-year period. The interest rate on each draw is 3.24% plus the change in the KeyCorp Cost of Funds Index for 72 months (ranging from 3.35% to 4.97% on the draws outstanding at December 31, 2021).

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Scheduled principal payments on long-term debt and finance lease obligations are as follows:

	<u>Long-term debt</u>	<u>Finance lease obligations</u>
2022	\$ 4,216	4,253
2023	8,323	3,409
2024	6,798	2,005
2025	7,082	1,466
2026	7,257	566
Thereafter	<u>147,110</u>	<u>2,065</u>
	\$ <u>180,786</u>	13,764
Less amount representing interest under finance lease obligations		<u>(1,203)</u>
		\$ <u>12,561</u>

(12) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31:

	<u>2021</u>	<u>2020</u>
Operating programs support	\$ 8,637	7,680
Capital acquisition	2,119	1,625
Other	<u>7,993</u>	<u>7,606</u>
Total donor restricted net assets	\$ <u>18,749</u>	<u>16,911</u>

The foundations' endowments consist of 21 individual funds established for a variety of purposes. The endowments include both donor-restricted endowment funds and unrestricted funds designated by the boards of trustees of each of the foundations to function as endowments. Net assets associated with endowment funds, including funds designated by the boards of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The foundations have adopted investment and spending policies for endowment assets to ensure appropriations for distributions are consistent with the foundations' objective of maintaining the corpus. These funds included \$8,667 and \$7,930 of net assets with donor restrictions as of December 31, 2021 and 2020, respectively.

The foundations also have board designated endowments of \$6,959 and \$6,468 at December 31, 2021 and 2020, respectively. These funds are managed based on policies adopted by the boards to benefit the mission of SHS. They are classified as net assets without donor restrictions.

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(13) Retirement Plans

(a) Retirement Plan

Employees aged 18 or older and having completed one year of service (12 months with at least 1,000 hours) are eligible to participate in the Samaritan Health Services Retirement Plan (SHS Retirement Plan), a defined-contribution pension plan. Employer contributions are 4% of gross earnings, with an additional 4% of earnings in excess of the FICA wage base.

Employer contributions under this plan were \$17,757 and \$16,967 in 2021 and 2020, respectively, and are included in employee benefits in the consolidated statements of operations and changes in net assets without donor restrictions.

(b) Tax Sheltered Annuity Plan

Employees aged 18 or older and having completed one year of service (12 months with at least 1,000 hours) are eligible to participate in the Samaritan Health Services Tax Sheltered Annuity Plan (SHS TSA Plan). The level of contribution depends on the level of employee contributions to individual tax-sheltered annuity accounts and the employer matches up to 2% of the employees' gross earnings.

Employer contributions under this plan were \$8,325 and \$7,879 in 2021 and 2020, respectively, and are included in employee benefits in the consolidated statements of operations and changes in net assets without donor restrictions.

(c) Defined-Benefit Plan

GSRMC has a noncontributory defined-benefit pension plan (the Plan). The retirement benefits of all participants in the Plan were frozen effective December 31, 2011 (Freeze Date). No benefit service after the Freeze Date will be taken into account in determining a participant's retirement benefits. After the Freeze Date, future retirement benefits are provided by the SHS Retirement Plan and the SHS TSA Plan. GSRMC's policy has been to contribute for each plan year an amount between the minimum and maximum contribution allowed under IRS regulations.

SHS recognizes the funded status of the defined-benefit pension as a net asset or liability on its consolidated balance sheets. Actuarial gains and losses are generally amortized subject to the corridor, over the average remaining service life of the employees.

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The following tables set forth the Plan's funded status at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 146,249	133,239
Interest cost	3,058	3,923
Actuarial (gain) loss	(3,879)	14,667
Benefits paid	<u>(6,028)</u>	<u>(5,580)</u>
Projected benefit obligation at end of year	<u>139,400</u>	<u>146,249</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	122,692	109,195
Actual return on plan assets	9,152	16,577
Employer contributions	2,202	2,500
Benefits paid	<u>(6,028)</u>	<u>(5,580)</u>
Fair value of plan assets at end of year	<u>128,018</u>	<u>122,692</u>
Funded status	\$ <u><u>(11,382)</u></u>	\$ <u><u>(23,557)</u></u>

	<u>2021</u>	<u>2020</u>
Amounts recognized as changes in net assets consist of:		
Amortization of net loss	\$ (2,803)	(3,000)
Actuarial (gain) loss	<u>(6,600)</u>	<u>3,972</u>
Net amount recognized	\$ <u><u>(9,403)</u></u>	\$ <u><u>972</u></u>
Accumulated benefit obligation at end of year	\$ 139,400	146,249

The following table sets forth the components of net periodic (benefit) cost in 2021 and 2020, which is included in other nonoperating expense in the consolidated statements of operations and changes in net assets without donor restrictions:

	<u>2021</u>	<u>2020</u>
Interest cost	\$ 3,058	3,923
Expected return on plan assets	(6,431)	(5,882)
Amortization of actuarial loss	<u>2,803</u>	<u>3,000</u>
Net periodic (benefit) cost	\$ <u><u>(570)</u></u>	\$ <u><u>1,041</u></u>

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The estimated net actuarial loss that will be amortized from net assets into net periodic pension cost during 2022 is \$1,386.

Assumptions used to determine benefit obligations at December 31 were as follows:

	<u>2021</u>	<u>2020</u>
Benefit obligation:		
Discount rate	2.53 %	2.11 %
Net periodic benefit cost:		
Discount rate	2.11	2.96
Expected long-term rate of return on plan assets	5.50	6.00

The expected long-term rate of return on plan assets is the expected weighted average rate of return on the funds invested currently and on funds to be invested in the future in order to provide for the benefits included in the projected benefit obligation. The assumptions are based on capital market assumptions and the Plan's target asset allocation. SHS monitors the expected long-term rate of return to determine if changes in those parameters cause the estimate to be outside of a reasonable range of expected returns, or if actual Plan returns over an extended period of time suggest that general market assumptions are not representative of expected Plan results.

The Plan's asset allocation at December 31 was as follows:

	<u>2021</u>		<u>2020</u>	
	<u>Actual</u>	<u>Target</u>	<u>Actual</u>	<u>Target</u>
Fixed equities	19 %	21 %	27 %	23 %
Domestic debt securities	63	60	52	55
International equities	11	12	15	14
Real estate properties	7	7	6	8
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Pension plan assets are managed according to an investment policy adopted by the Samaritan Health Services, Inc. Retirement Plan Trustees. The board of directors establishes overall investment objectives and delegates the authority for executing the policy to the Retirement Plan Trustees. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objective 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 for the long term, which protects the principal and produces returns sufficient to meet future benefit obligations. The investment policy provides for an asset allocation that includes equities, fixed income instruments, and real estate.

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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 associated valuation methodologies are described in note 8. There were no changes in the hierarchy classification below from 2020 to 2021. The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2021:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 549	549	—	—
Mutual funds:				
Domestic equities	23,649	23,649	—	—
International equities	14,788	14,788	—	—
Domestic debt securities	80,062	80,062	—	—
	119,048	\$ <u>119,048</u>	<u>—</u>	<u>—</u>
Investments measured at NAV per share or its equivalent	<u>8,970</u>			
	\$ <u>128,018</u>			

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2020:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 506	506	—	—
Mutual funds:				
Domestic equities	32,408	32,408	—	—
International equities	18,124	18,124	—	—
Domestic debt securities	64,121	64,121	—	—
	115,159	\$ <u>115,159</u>	<u>—</u>	<u>—</u>
Investments measured at NAV per share or its equivalent	<u>7,533</u>			
	\$ <u>122,692</u>			

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The following table provides information regarding redemption of investments where the NAV has been used as a practical expedient to fair value at December 31, 2021 and 2020:

	<u>Fair value at December 31, 2021</u>	<u>Fair value at December 31, 2020</u>	<u>Redemption frequency</u>	<u>Redemption period</u>
Real estate investment fund	\$ 8,970	7,533	Quarterly	90 days

The ING Clarion Lion Properties Fund is a real estate fund that has a fair value of \$8,970 and \$7,533 as of December 31, 2021 and 2020, respectively, estimated by using NAV as a practical expedient to fair value, and consists of assorted real estate investments around the United States. These underlying properties are valued using a combination of the income, cost, and sales approaches using projected income streams, discount rates, replacement costs, and recent transactions for similar properties depending on the valuation approach utilized. Other factors considered include the operating cash flows and financial performance of the properties, property types and geographic locations, the physical condition of properties, prevailing market capitalization and discount rates, and general and specific economic conditions. The valuation of investments includes reliance on significant unobservable inputs.

SHS expects to contribute \$2,000 to the Plan in 2022.

Benefit payments are expected to be paid as follows:

2022	\$ 7,571
2023	7,831
2024	8,020
2025	8,108
2026	8,176
2027-2031	<u>40,008</u>
	\$ <u><u>79,714</u></u>

(14) Commitments and Contingencies

(a) Professional Liability and Other Claims

SHS is self-insured for professional and general liability coverage through PIC, a captive insurance company wholly owned by SHS. Insurance coverage in excess of self-insured levels is carried through outside excess commercial reinsurers on a claims-made basis.

There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. SHS has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. The amount recorded as a liability for estimated losses from professional liability incidents,

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claims, and other included in other current liabilities and professional liability, less current portion in the consolidated balance sheets, was \$26,830 and \$24,762 as of December 31, 2021 and 2020, respectively, and, in management's opinion, provides an adequate reserve for loss contingencies.

(b) Collective Bargaining Agreements

Approximately 33% of SHS employees are covered under collective bargaining agreements, including nurses, professional employees, and service employees, with 14% of SHS employees under contracts expiring in 2022. SHS is currently engaged in contract negotiations on the contracts that are soon to expire.

(c) Litigation

SHS is involved in litigation and regulatory matters 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 SHS' future financial position or results from operations.

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. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by healthcare providers. These investigations may result in settlements involving fines and penalties as well as repayment of improper reimbursement. SHS has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of instances of noncompliance.

(15) Leases

Relevant leasing information for the year ended December 31, 2021, as determined under ASC 842, is as follows:

SHS leases medical and administrative office buildings, and equipment to support operations. Below is the breakout of operating and finance leases as of December 31, 2021 and 2020:

	2021	2020
	Operating	Operating
	leases	leases
	<u> </u>	<u> </u>
Operating lease, right of use assets	\$ 23,290	20,391
Less accum amort/depr	<u>(8,643)</u>	<u>(5,674)</u>
Operating lease, right of use assets, net	<u>\$ 14,647</u>	<u>14,717</u>
Current portion of operating lease liabilities	\$ 3,491	2,860
Long-term operating lease liabilities, less current portion	11,156	11,857

SAMARITAN HEALTH SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(Dollars in thousands)

	<u>2021</u> <u>Finance</u> <u>leases</u>	<u>2020</u> <u>Finance</u> <u>leases</u>
Finance lease right of use assets recorded in property, plant, and equipment, net	\$ 7,111	5,995
Finance lease liabilities recorded in current portion of long-term debt	3,877	3,143
Finance lease liabilities recorded in long-term debt, less current portion	8,684	9,661

The weighted average terms and discount rates for operating and finance leases were 6 and 7 years and 4.0% and 3.0%, respectively, as of December 31, 2021. The weighted average terms and discount rates for operating and finance leases were 7 and 8 years and 4.0% and 3.8%, respectively, as of December 31, 2020.

SHS incurred the following lease expense amounts:

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
Operating lease cost:		
Operating lease cost	\$ 3,617	3,563
Finance lease cost:		
Interest expense	501	609
Amortization expense	1,693	1,573

SHS anticipates that operating leases will mature as follows:

	<u>Operating</u> <u>leases</u>
2022	\$ 4,011
2023	3,564
2024	2,609
2025	2,096
2026	1,548
Thereafter	<u>2,612</u>
	<u>\$ 16,440</u>

SAMARITAN HEALTH SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(Dollars in thousands)

(16) Related-Party Disclosures

SHS has invested in certain joint ventures. The following joint ventures are consolidated into the financial statements of SHS and in the aggregate have total assets of \$1,962 and \$1,925 as of December 31, 2021 and 2020, respectively, and earnings of \$2,893 and \$2,494 in 2021 and 2020, respectively.

	<u>Ownership</u>
Corvallis Medical Office Building, LLC	54.5 %
Corvallis MRI Joint Venture	50.0
East Linn MRI, LLC	60.0
Hull Imaging, LLC	60.0

Other joint ventures are accounted for on the equity method and are not material to the consolidated financial statements taken as a whole. They have in the aggregate contributed income (losses) of \$863 and (\$1,467) in 2021 and 2020, respectively, which are included in other income (expense), net in the consolidated statements of operations and changes in net assets without donor restrictions.

(17) Functional Expenses

SHS provides healthcare services to residents within its geographic locations. Functional expenses are based on the department they are associated with. Administrative departments are assigned to the management and general category, foundation and auxiliary departments are assigned to the fundraising category, and departments associated with the exempt purposes of the affiliated organizations of Samaritan Health Services are assigned to the program service category. Employee benefits are allocated based on wages. Depreciation, amortization, and interest expense are allocated based on square footage. Expenses related to providing these services are as follows:

	<u>2021</u>			
	<u>Fundraising</u>	<u>Management</u>	<u>Program service</u>	<u>Total</u>
Salaries and wages	\$ 1,343	14,641	496,368	512,352
Employee benefits	186	2,027	68,712	70,925
Medical services	—	—	338,772	338,772
Supplies	153	1,774	199,917	201,844
Purchased services	2,357	5,830	130,061	138,248
Utilities, insurance, and other	54	14,215	79,535	93,804
Depreciation	5	1,133	34,055	35,193
Interest and amortization	—	240	7,202	7,442
Total	\$ <u>4,098</u>	<u>39,860</u>	<u>1,354,622</u>	<u>1,398,580</u>

SAMARITAN HEALTH SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(Dollars in thousands)

2020				
	Fundraising	Management	Program service	Total
Salaries and wages	\$ 1,298	14,369	459,132	474,799
Employee benefits	192	2,126	67,919	70,237
Medical services	—	—	312,915	312,915
Supplies	128	1,319	167,252	168,699
Purchased services	2,989	6,761	113,734	123,484
Utilities, insurance, and other	59	13,750	74,557	88,366
Depreciation	9	4,824	30,774	35,607
Interest and amortization	—	1,140	8,238	9,378
Total	\$ <u>4,675</u>	<u>44,289</u>	<u>1,234,521</u>	<u>1,283,485</u>

(18) Liquidity

The table below represents financial assets available for general expenditures within one year:

	2021	2020
Financial assets at year end:		
Cash and cash equivalents	\$ 288,212	275,420
Patient accounts receivable, net	98,221	76,550
Investments, including short term	<u>249,049</u>	<u>247,987</u>
Total financial assets	\$ <u>635,482</u>	<u>599,957</u>

SHS has other assets limited to use for donor-restricted purposes, and debt service. Additionally, certain other foundation donor restricted assets are designated for future capital expenditures. These assets limited to use, which are more fully described in note 12, are not available for general expenditure within the next year and are not reflected in the amounts above.

Additionally, SHS maintains a \$16,000 line of credit, as discussed in more detail in note 10. As of December 31, 2021, \$16,000 remained available on the SHS's line of credit.

SAMARITAN HEALTH SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

(Dollars in thousands)

(19) COVID-19

On March 11, 2020, the World Health Organization announced the Novel Coronavirus Disease (COVID-19) Outbreak a global pandemic and shortly following a national emergency declaration concerning the COVID-19 outbreak was enacted. Subsequently, SHS has been operating under Federal Government, along with State and local, mandates as of March 13, 2020, including a State of Emergency for Oregon declared by Governor Kate Brown in early March, which extended through the fiscal year end. In response to COVID-19, and guidance from state and local public health authorities, SHS began modified operations in mid-March 2020 and continues to operate under some level of modified operations. The Coronavirus Aid, Relief and Economic Security (CARES) Act, which was enacted on March 27, 2020, authorized \$100 billion on funding to hospitals and other healthcare providers as provider relief funds (PRF). Payments from the provider relief fund were intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic. Provider relief funds were not required to be repaid provided recipients attest to and comply with certain terms and conditions, including limits on COVID-19 balance billing. SHS recognized \$5,524 of general distributions and \$2,723 of targeted funds, and \$19,333 of general distributions and \$34,660 of targeted funds, which were included in other operating revenue for the fiscal years ending December 31, 2021 and 2020, respectively. In response to COVID-19 and subsequent to the CARES act, the Centers for Medicare and Medicaid Services (CMS), expanded the existing Accelerated and Advance Payments Program in order to accelerate cash flow to impacted health care providers. In 2020, SHS received \$84,807 and began repayment in 2021. As of December 31, 2021, \$56,307 is still outstanding and recorded as other current liabilities in the consolidated balance sheets. As of December 31, 2020, \$51,007 and \$33,800 were recorded as other current and other liabilities in the consolidated balance sheets, respectively.

Under accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect reported amounts. Accordingly, the impact of COVID-19 has increased the uncertainty associated with several of the assumptions underlying management's estimates. COVID-19's overall impact on SHS will be driven primarily by the severity and duration of the pandemic; the pandemic's impact on the United States 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 SHS's revenue growth, supply chain, investments, and workforce, among other aspects of SHS's business. The actual impact of COVID-19 on SHS's combined financial statements may differ significantly from the judgements and estimates made as of the year ended December 31, 2021.

(20) Subsequent Events

SHS evaluated subsequent events after the consolidated balance sheet date of December 31, 2021 through March 28, 2022 which was the date the consolidated financial statements were issued.

SAMARITAN HEALTH SERVICES, INC.

Supplementary Schedule – Balance Sheet Information

December 31, 2021 and 2020

(Dollars in thousands)

Assets	Obligated group	Nonobligated group	Eliminating entries	2021	2020
Current assets:					
Cash and cash equivalents	\$ 192,414	95,798	—	288,212	275,420
Short-term investments	61,996	43,927	—	105,923	108,258
Patient accounts receivable	96,018	11,188	(8,985)	98,221	76,550
Other receivables	22,335	13,841	(78)	36,098	30,656
Receivable from affiliates	(33,074)	33,074	—	—	—
Inventories	16,628	2,735	—	19,363	16,598
Other current assets	9,822	600	—	10,422	9,810
Total current assets	<u>366,139</u>	<u>201,163</u>	<u>(9,063)</u>	<u>558,239</u>	<u>517,292</u>
Assets limited as to use:					
Restricted by donor for capital acquisition	—	2,119	—	2,119	1,625
Restricted by donor for permanent endowment	—	8,667	—	8,667	7,930
Statutory deposits and other restricted investments	172	14,980	—	15,152	9,719
Total assets limited as to use	172	25,766	—	25,938	19,274
Long-term investments	53,503	89,623	—	143,126	139,729
Property, plant, and equipment, net	321,025	25,678	—	346,703	348,787
Operating lease, right of use, net	12,703	1,944	—	14,647	14,717
Other assets	33,647	6,156	(22,916)	16,887	16,451
Total assets	<u>\$ 787,189</u>	<u>350,330</u>	<u>(31,979)</u>	<u>1,105,540</u>	<u>1,056,250</u>

SAMARITAN HEALTH SERVICES, INC.

Supplementary Schedule – Balance Sheet Information

December 31, 2021 and 2020

(Dollars in thousands)

Liabilities and Net Assets	Obligated group	Nonobligated group	Eliminating entries	2021	2020
Current liabilities:					
Accounts payable	\$ 47,731	13,536	(78)	61,189	50,776
Accrued salaries, wages, and benefits	73,054	4,326	—	77,380	68,765
Estimated third-party payor settlements	13,313	5,280	—	18,593	5,048
Liability for unpaid medical claims	4,827	40,399	(8,986)	36,240	38,704
Other current liabilities	58,726	34,287	—	93,013	74,439
Current portion of operating lease liabilities	2,972	519	—	3,491	2,860
Current portion of long-term debt	14,014	320	(5,000)	9,334	8,443
Total current liabilities	214,637	98,667	(14,064)	299,240	249,035
Long-term debt, less current portion	197,547	4,615	(2,100)	200,062	206,491
Long-term operating lease liabilities, less current portion	9,731	1,425	—	11,156	11,857
Professional liability, less current portion	4,790	13,942	—	18,732	16,465
Pension liability	11,382	—	—	11,382	23,557
Other liabilities	14,279	4,694	—	18,973	60,911
Total liabilities	452,366	123,343	(16,164)	559,545	568,316
Net assets:					
Controlling interests	318,306	208,239	—	526,545	470,328
Noncontrolling interests	701	—	—	701	695
Net assets without donor restrictions	319,007	208,239	—	527,246	471,023
Net assets with donor restrictions	15,816	18,748	(15,815)	18,749	16,911
Total net assets	334,823	226,987	(15,815)	545,995	487,934
Total liabilities and net assets	\$ 787,189	350,330	(31,979)	1,105,540	1,056,250

See accompanying independent auditors' report.

SAMARITAN HEALTH SERVICES, INC.

Supplementary Schedule – Statement of Operations and Changes in Net Assets Without Donor Restrictions Information

Years ended December 31, 2021 and 2020

(Dollars in thousands)

	<u>Obligated group</u>	<u>Nonobligated group</u>	<u>Eliminating entries</u>	<u>2021</u>	<u>2020</u>
Revenue:					
Net patient service revenue	\$ 805,654	98,480	(134,237)	769,897	698,356
Premium revenue	27,409	530,743	(6,164)	551,988	502,625
Other operating revenue	122,230	15,405	(28,099)	109,536	138,098
Total revenue	<u>955,293</u>	<u>644,628</u>	<u>(168,500)</u>	<u>1,431,421</u>	<u>1,339,079</u>
Expenses:					
Salaries and wages	454,322	58,030	—	512,352	474,799
Employee benefits	59,160	17,929	(6,164)	70,925	70,237
Medical services	47,865	427,334	(136,427)	338,772	312,915
Supplies	180,308	22,519	(983)	201,844	168,699
Purchased services	94,947	58,491	(15,190)	138,248	123,484
Utilities, insurance, and other	71,970	31,570	(9,736)	93,804	88,366
Depreciation	32,968	2,225	—	35,193	35,607
Interest and amortization	7,457	198	(213)	7,442	9,378
Total expenses	<u>948,997</u>	<u>618,296</u>	<u>(168,713)</u>	<u>1,398,580</u>	<u>1,283,485</u>
Excess of revenue over expenses from operations	<u>6,296</u>	<u>26,332</u>	<u>213</u>	<u>32,841</u>	<u>55,594</u>
Other income, net:					
Investment income	8,178	5,583	(213)	13,548	10,482
Other income (loss)	2,844	(349)	—	2,495	(995)
Total other income, net	<u>11,022</u>	<u>5,234</u>	<u>(213)</u>	<u>16,043</u>	<u>9,487</u>
Excess of revenue over expenses	17,318	31,566	—	48,884	65,081
Change in net unrealized gains and losses on fixed income investments	(662)	(3,322)	—	(3,984)	2,146
Net assets released from restrictions used for capital acquisition	—	2,575	—	2,575	2,213
Net assets transferred for capital	2,575	(2,575)	—	—	—
Change in pension liability	9,403	—	—	9,403	972
Distributions to noncontrolling interest in consolidated joint ventures	(1,208)	—	—	(1,208)	(1,315)
Other	566	(13)	—	553	(1,471)
Change in net assets without donor restrictions	<u>\$ 27,992</u>	<u>28,231</u>	<u>—</u>	<u>56,223</u>	<u>67,626</u>

See accompanying independent auditors' report.