



**SALEM HEALTH HOSPITALS AND CLINICS**

Consolidated Financial Statements and Supplemental Schedules

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

## SALEM HEALTH HOSPITALS AND CLINICS

### Table of Contents

	<b>Page(s)</b>
Independent Auditors' Report	1-2
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7-32
Supplemental Schedules	33-35



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

## Independent Auditors' Report

The Board of Trustees  
Salem Health Hospitals and Clinics:

### *Opinion*

We have audited the consolidated financial statements of Salem Health Hospitals and Clinics and its subsidiaries (the Company), which comprise the consolidated balance sheets as of June 30, 2022 and June 30, 2021, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and June 30, 2021, 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 Company 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 Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are 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 Company'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 Company'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.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in the consolidating schedule of balance sheet information and consolidating schedule of operations information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The lean initiatives footnote included in note 15 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subject to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*KPMG LLP*

Portland, Oregon  
October 7, 2022

**SALEM HEALTH HOSPITALS AND CLINICS**

Consolidated Balance Sheets

June 30, 2022 and 2021

(In thousands)

<b>Assets</b>	<b>2022</b>	<b>2021</b>
Current assets:		
Cash and cash equivalents	\$ 18,568	36,034
Patient accounts receivable, Net	128,264	123,560
Other receivables	17,641	18,552
Supplies inventory	11,513	9,692
Prepaid expenses and other	16,948	13,818
Total current assets	192,934	201,656
Investments	917,583	1,141,819
Property and equipment, net	671,915	607,469
Rental and other property held for future development, net of accumulated depreciation of \$5,492 in 2022 and \$4,627 in 2021	54,685	62,324
Investments in health related entities	27,696	21,980
Other noncurrent assets	26,734	15,821
Total assets	\$ 1,891,547	2,051,069
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 72,932	76,335
Accrued liabilities:		
Payroll, payroll taxes, and withholdings	15,981	33,175
Paid time off	28,760	26,661
Other	18,847	15,005
Estimated third-party payor settlements, net	7,423	10,584
Current portion of long-term debt	12,215	11,909
Current portion of estimated professional liability	2,245	2,218
Total current liabilities	158,403	175,887
Long-term debt, net of current portion	484,766	496,928
Accrued postretirement healthcare benefits	2,001	3,216
Other long-term liabilities	6,348	7,152
Estimated professional liability, net of current portion	7,853	10,129
Total liabilities	659,371	693,312
Net assets:		
Without donor restrictions	1,222,523	1,350,036
With donor restrictions	9,653	7,721
Total net assets	1,232,176	1,357,757
Total liabilities and net assets	\$ 1,891,547	2,051,069

See accompanying notes to consolidated financial statements.

**SALEM HEALTH HOSPITALS AND CLINICS**

Consolidated Statements of Operations

Years ended June 30, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Operating revenue:		
Patient service revenue	\$ 965,254	909,024
Other revenue	51,502	44,174
Net assets released from donor restriction used for operations	<u>299</u>	<u>193</u>
Total operating revenues	<u>1,017,055</u>	<u>953,391</u>
Operating expenses:		
Labor and benefits	663,240	542,072
Medical and other supplies	138,399	132,405
Purchased services and other	132,390	123,598
Depreciation	47,295	50,863
Professional fees	27,736	19,734
Interest and amortization	<u>11,178</u>	<u>12,713</u>
Total operating expenses	<u>1,020,238</u>	<u>881,385</u>
(Deficit) excess of revenue over expenses from operations	<u>(3,183)</u>	<u>72,006</u>
Other income (expense):		
Investment (loss) income, net	(118,418)	173,371
Gain on disposal of property and equipment	4	172
Other, net	<u>(4,810)</u>	<u>(6,342)</u>
Total other income (Expense)	<u>(123,224)</u>	<u>167,201</u>
(Deficit) excess of revenue over expenses	<u>(126,407)</u>	<u>239,207</u>
Change in net unrealized gain or loss on fixed income investments	(1,307)	(361)
Change in postretirement benefit obligation	201	2,682
Net assets released from donor restriction used for property and equipment	<u>—</u>	<u>140</u>
Change in net assets without donor restrictions	\$ <u>(127,513)</u>	<u>241,668</u>

See accompanying notes to consolidated financial statements.

**SALEM HEALTH HOSPITALS AND CLINICS**

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2022 and 2021

(In thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Net assets at June 30, 2020	\$ 1,108,368	7,532	1,115,900
Excess of revenue over expenses	239,207	—	239,207
Change in net unrealized gain on other-than-trading securities	(361)	—	(361)
Change in postretirement benefit obligation	2,682	—	2,682
Net assets released from restriction used for property and equipment	140	(140)	—
Contributions with donor restrictions	—	305	305
Donor restricted investments and other income, net	—	217	217
Net assets released from restrictions for operations	—	(193)	(193)
	<u>241,668</u>	<u>189</u>	<u>241,857</u>
Change in net assets			
Net assets at June 30, 2021	1,350,036	7,721	1,357,757
Deficit of revenue over expenses	(126,407)	—	(126,407)
Change in net unrealized gain on other-than-trading securities	(1,307)	—	(1,307)
Change in postretirement benefit obligation	201	—	201
Contributions with donor restrictions	—	1,803	1,803
Donor restricted investments and other income, net	—	428	428
Net assets released from restrictions for operations	—	(299)	(299)
	<u>(127,513)</u>	<u>1,932</u>	<u>(125,581)</u>
Change in net assets			
Net assets at June 30, 2022	\$ <u>1,222,523</u>	<u>9,653</u>	<u>1,232,176</u>

See accompanying notes to consolidated financial statements.

**SALEM HEALTH HOSPITALS AND CLINICS**

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (125,581)	241,857
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	46,896	48,456
Change in net realized and unrealized losses (gains) on investments	133,441	(158,763)
Cash collections on contributions for long-term purposes	—	(188)
Gain on disposal of property and equipment	(4)	(172)
Equity income on joint venture	(1,732)	(2,671)
Equity distributions from joint venture	3,149	2,937
Changes in operating assets and liabilities:		
Patient accounts receivable	(4,704)	(24,014)
Other receivables	911	(1,833)
Supplies inventory	(1,821)	(817)
Prepaid expenses	(3,130)	(3,790)
Other noncurrent assets	(747)	(120)
Accounts payable	14,099	14,105
Accrued liabilities	(11,253)	(46,263)
Estimated third-party payor settlements, net	(3,161)	4,759
Accrued postretirement healthcare benefits	(1,215)	(2,987)
Other long-term liabilities	(804)	447
Estimated professional liability	(2,249)	2,283
Net cash provided by operating activities	<u>42,095</u>	<u>73,226</u>
Cash flows from investing activities:		
Purchases of investments	(98,391)	(427,005)
Investments or acquisitions of health related entities	(11,178)	—
Proceeds from sales of investments	189,186	490,013
Proceeds from sales of property, rental, and other	—	1,138
Purchases of property and equipment and rental and other property	(130,193)	(138,310)
Net cash used in investing activities	<u>(50,576)</u>	<u>(74,164)</u>
Cash flows from financing activities:		
Proceeds from line of credit	31,000	—
Repayment of long-term debt	(8,100)	(7,735)
Repayment of line of credit borrowings	(31,000)	—
Restricted contributions for long-term purposes	—	188
Payment of principal on long-term debt (non-bond)	(885)	(881)
Net cash used in financing activities	<u>(8,985)</u>	<u>(8,428)</u>
Net decrease in cash and cash equivalents	(17,466)	(9,366)
Cash and cash equivalents at beginning of year	<u>36,034</u>	<u>45,400</u>
Cash and cash equivalents at end of year	\$ <u>18,568</u>	\$ <u>36,034</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 11,208	12,766
(Decrease) Increase in construction related payables	(17,643)	10,403
Fixed assets exchanged for note receivable from joint venture investee	(6,121)	—

See accompanying notes to consolidated financial statements.

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

### (1) Organization, Principles of Consolidation, and Operations

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

The accompanying consolidated financial statements include the accounts and transactions of the Corporation and its subsidiaries, of which Salem Health Hospitals and Clinics is the parent holding company and sole member. The subsidiaries consist of Salem Health (Salem) and Salem Health West Valley (West Valley) (collectively, the Hospitals); Salem Health Foundation (SHF) and West Valley Hospital Foundation (WVHF) (collectively, the Foundations); and Willamette Valley Insurance Corporation (WVIC), a captive insurance company domiciled in Hawaii. All significant intercompany accounts and transactions have been eliminated in consolidation. The Corporation has formed an obligated group that is responsible for paying hospital revenue bond debt. The obligated group is comprised of the parent holding company Salem Health Hospitals and Clinics and Salem.

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

#### *COVID-19 Pandemic and CARES Act Funding*

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020 and authorized \$100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the Fund). Payments from the Fund are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using the funding to reimburse expenses or losses that other sources are obligated to reimburse. During the years ended June 30, 2022 and 2021, the Corporation recognized payments of \$7,765 and \$7,944 from the Fund, respectively. The entire amount was recognized as other revenue in each year.

Under U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect reported amounts. Accordingly, the impact of COVID-19 has increased uncertainty associated with several of the assumptions underlying management's estimates. COVID-19's overall impact on the Corporation has been driven primarily by the severity and duration of the pandemic; the pandemic's impact on the U.S. economy; and the timing, scope, and effectiveness of federal, state, and local governmental responses to the pandemic. Those primary drivers remain uncertain and beyond management's control and may continue to adversely impact the Corporation's business. The actual impact of COVID-19 on the Corporation's consolidated financial statements may differ significantly from the judgments and estimates made as of the year ended June 30, 2022.

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

### (2) Summary of Significant Accounting Policies

#### (a) Use of Estimates

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

#### (b) Cash and Cash Equivalents

Cash equivalents include investments in highly liquid instruments with original maturities of three months or less, excluding assets limited as to use. Cash equivalents totaled \$472 and \$534 at June 30, 2022 and 2021, respectively; cash equivalents exclude those balances held as part of the investment portfolio.

The Corporation maintains bank accounts at several financial institutions. The Corporation's bank balances at each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250. At June 30, 2022 and 2021, the Corporation's bank balances at certain financial institutions exceeded FDIC coverage.

#### (c) Patient Accounts Receivable and Patient Service Revenue

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

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

The mix of net patient receivables from significant third-party payors as of June 30, 2022 and 2021 was as follows:

	<u>June 30, 2022</u>	
Medicare	35 %	\$ 44,903
Medicaid	11	14,434
Self pay	—	476
Commercial and other payors	<u>54</u>	<u>68,451</u>
Total	<u>100 %</u>	<u>\$ 128,264</u>

**SALEM HEALTH HOSPITALS AND CLINICS**

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

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

The mix of net patient service revenue from significant third-party payors for the years ended June 30, 2022 and 2021 was as follows:

	<u>Year ended June 30, 2022</u>	
Medicare	35 %	\$ 334,659
Medicaid	19	183,187
Self pay	—	5,277
Commercial and other payors	<u>46</u>	<u>442,131</u>
Total	<u>100 %</u>	<u>\$ 965,254</u>

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

The following tables represent net patient service revenue by line of business in the years ending June 30, 2022 and 2021, respectively:

	<u>Year ended June 30, 2022</u>			
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Clinics</u>	<u>Total</u>
Net patient service revenue \$	506,825	401,928	56,501	965,254
	<u>Year ended June 30, 2021</u>			
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Clinics</u>	<u>Total</u>
Net patient service revenue \$	485,754	361,071	62,199	909,024

Performance obligations for healthcare services provided to patients generally relate to contracts of one year or less. Performance obligations for inpatient services are generally completed at the time the

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

patients are discharged. Performance obligations for outpatient services are generally satisfied over a period of less than a day.

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

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

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

Salem's cost reports have been audited and final settled by the Medicare fiscal intermediaries and the Medicaid administrators through June 30, 2018 and June 30, 2016 respectively. West Valley's cost reports have been audited and final settled by the Medicare fiscal intermediaries and the Medicaid administrators through June 30, 2017.

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

### **(d) *Supplies Inventory***

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

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

### (e) *Investments*

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

Investments in equity and debt securities are reported at fair value in the accompanying consolidated balance sheets. The fair values are based on quoted market prices at the reporting date for those or similar investments. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on equity investments, interest, and dividends) is included in the excess of revenue over expenses unless the income or loss is restricted by the donor or law. The Corporation's debt investments are classified as other-than-trading securities at June 30, 2022 and 2021. Unrealized gains and losses on other-than-trading debt investments are excluded from excess of revenue over expenses unless they are considered other-than-temporarily impaired.

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

For debt securities that the Corporation does intend to sell or is more likely than not to be required to sell prior to recovery of the cost basis, the Corporation recognizes other-than-temporary losses in accordance with the provisions of the ASC Topic 320 *Investments – Debt and Equity Securities*. The amount of the other-than-temporary loss is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between a security's cost basis and the present value of expected future cash flows discounted at the security's effective interest rate. The amount due to all other factors is recognized in other changes in net assets. For the year ended June 30, 2022 or 2021, the Corporation recognized no other-than-temporary losses.

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

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

### **(f) Property and Equipment**

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

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

### **(g) Long-Lived Assets**

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

### **(h) Investments in Health Related Entities**

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

### **(i) Net Assets With Donor Restrictions**

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

### **(j) Consolidated Statements of Operations**

(Deficit) excess of revenue over expenses from operations includes amounts generated from direct patient care, other revenue related to the operation of the Hospitals' facilities, and contributions without donor restrictions received by the Foundations. Other activities that result in income or expenses

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

unrelated to the Hospitals' and the Foundations' primary missions are excluded from excess of revenue over expenses from operations. Other income (expense) includes net investment income, earnings on joint ventures, change in unrealized gains and losses on equity investment securities, any other-than-temporary impairment losses on debt investment securities, rental income and expenses related to nonoperating real estate properties, gain on disposals of property and equipment, and other incidental transactions.

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

### **(k) Contributions Received**

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

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

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

### **(l) Income Taxes**

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

Accounting principles generally accepted in the United States of America require the Corporation to evaluate tax positions taken by the Corporation and recognize a tax liability (or an asset) if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

Corporation and has concluded that as of June 30, 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Corporation's management believes it is no longer subject to income tax examinations for years prior to fiscal year 2019.

### **(m) State of Oregon Provider Tax**

Effective July 1, 2004, the state of Oregon instituted a provider tax on certain qualifying hospitals. The Corporation recorded provider taxes of \$54,253 and \$50,300 for the years ended June 30, 2022 and 2021, respectively, which are included in purchased services and other expense in the accompanying consolidated statements of operations. In addition, the Corporation has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments owed to the Corporation related to beneficiaries of the Oregon Department of Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to the Corporation. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to qualifying hospitals on a quarterly basis. The Corporation received \$53,800 and \$49,746 for the years ended June 30, 2022 and 2021, respectively, from OAHHS, which are reflected as a component of patient service revenue in the accompanying consolidated statements of operations.

### **(3) Benefits to the Community**

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

#### **(a) Services for People in Need**

The following tables represent the estimated cost of providing certain services to the community, where the related revenues do not fully cover cost of services along with a description of selected activities sponsored by the Hospitals during 2022 and 2021:

	<b>Year ended June 30, 2022</b>		
	<b>Estimated costs to provide care</b>	<b>Offsetting revenue</b>	<b>Estimated net cost</b>
Services for people in need:			
Charity care	\$ 26,857	—	26,857
Medicaid	252,171	182,797	69,374
Medicare	487,653	354,714	132,939
	\$ 766,681	537,511	229,170
Percentage of total operating expenses			25.4 %

**SALEM HEALTH HOSPITALS AND CLINICS**

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

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

In support of its mission, the Hospitals voluntarily provide medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care are determined based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, the Hospitals provide an uninsured discount of 35% to all uninsured patients. In 2023, Salem Health increased the uninsured discount to 53% of gross charges. Further discounts are available for patients, on a sliding scale, whose household income is less than 400% of the federal poverty level, or roughly \$111 for a family of four in Salem, Oregon. For patients whose household income is at or below 300% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, the patients' qualified assets (e.g., assets and investments excluding patient's primary residence) and other catastrophic or economic circumstances are considered in determining eligibility for charity care.

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

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

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

**(b) Benefits to Community**

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

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

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

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

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

### **(c) Other Benefits**

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

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

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

### (4) Liquidity and Availability

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

	2022	2021
Financial assets at year end:		
Cash and cash equivalents	\$ 18,568	36,034
Patient accounts receivable, net	128,264	123,560
Other receivables	17,641	18,552
Investments	917,583	1,141,819
Total financial assets	1,082,056	1,319,965
Less amounts not available to be used within one year:		
Funds held by Trustees	27,972	109,905
Donor-restricted endowed funds	2,277	2,277
Financial assets not available to meet general expenditures within one year	30,249	112,182
Financial assets available to meet general expenditures within one year	\$ 1,051,807	1,207,783

### (5) Investments

The composition of investments as of June 30, 2022 and 2021 is set forth in the following table. The following breakout indicates management's methodology for managing its investment portfolio. Investments are carried at fair value.

	2022	2021
Internally designated for operating and capital expenditures:		
Cash equivalents	\$ 10,955	32,514
Common stocks and equity mutual funds	444,889	545,563
Fixed-income mutual funds	412,864	428,512
Corporate bonds	3,223	4,061
U.S. government agency securities	2,386	2,807
U.S. Treasury securities	7,862	9,603
Total internally designated for operating and capital expenditures	882,179	1,023,060

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

	2022	2021
Held by the Foundations:		
Cash equivalents	\$ 192	157
Common stocks and equity mutual funds	4,996	6,164
Fixed-income mutual funds	2,244	2,533
Total held by the Foundations	7,432	8,854
Held by trustee:		
Cash equivalents	27,972	109,905
Total held by trustee	27,972	109,905
Total investments	\$ 917,583	1,141,819

### (6) Fair Value Measurements

#### (a) Fair Value of Financial Instruments

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

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

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

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

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

### (b) Fair Value Hierarchy

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

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

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. There was no reclassification of securities between Level 1 and Level 2 during the fiscal year ended June 30, 2022 or 2021. There were no Level 3 securities at June 30, 2022 or 2021.

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2022:

	<u>June 30, 2022</u>	<u>Fair value measurements at reporting date using</u>	
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>
Assets:			
Cash equivalents	\$ 39,119	39,119	—
Common stocks and equity mutual funds	449,885	449,885	—
Fixed-income mutual funds	415,108	415,108	—
Corporate bonds	3,223	—	3,223
U.S. government agency securities	2,386	—	2,386
U.S. Treasury securities	7,862	7,862	—
Total	<u>\$ 917,583</u>	<u>911,974</u>	<u>5,609</u>

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2021:

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

### (7) Property and Equipment, Net

Property and equipment consisted of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Land and improvements	\$ 38,771	38,016
Buildings and improvements	641,561	639,550
Equipment	346,689	358,732
Finance lease right-of-use assets	17,582	17,582
	<u>1,044,603</u>	<u>1,053,880</u>
Less accumulated depreciation	<u>(652,084)</u>	<u>(623,866)</u>
	392,519	430,014
Construction in progress	<u>279,396</u>	<u>177,455</u>
Property and equipment, net	<u>\$ 671,915</u>	<u>607,469</u>

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. The Corporation capitalized \$3,579 and \$5,069 in the years ending June 30, 2022 and 2021, respectively. The Corporation made an additional contribution of \$6,617 during the year ended June 30, 2022 of additional equity interest to WSC for future expansions.

**SALEM HEALTH HOSPITALS AND CLINICS**

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

**(8) Investments in Health-Related Activities**

The following is a summary of the Corporation's related-party investments which are included in other noncurrent assets in the accompanying consolidated balance sheets at June 30, 2022 and 2021:

Entity	Basis of accounting	Investment balance included in the accompanying consolidated balance sheets as of June 30, 2022 and 2021		The corporation's share of income (losses) included in the accompanying consolidated statements of operations for the fiscal years ended June 30, 2022 and 2021	
		2022	2021	2022	2021
WVCH	Equity method	\$ —	780	—	235
SOSC	Equity method	(233)	175	(532)	(386)
WSC	Equity method	27,929	21,025	2,264	2,822
		<u>\$ 27,696</u>	<u>21,980</u>	<u>1,732</u>	<u>2,671</u>

**(a) Willamette Surgery Center, LLC**

Willamette Surgery Center, LLC (WSC) is a limited liability company whose members are the Corporation and community physician partners. Equity is allocated 54.2% and 45.8%, respectively, although voting rights are allocated 42.9% and 57.1%, respectively, to the Corporation and the community physician partners. As a result, the Corporation accounts for the investment under the equity method of accounting. WSC operates and manages an outpatient orthopedic surgery center located in Salem, Oregon. The Corporation made an initial investment of \$20,000 in WSC during the year ended June 30, 2019. The Corporation received member distributions of \$2,369 and \$2,937 in the years ending June 30, 2022 and 2021, respectively. The Corporation made an additional contribution of \$6,617 during the year ended June 30, 2022 of additional equity interest to WSC for future expansions.

**(b) Willamette Valley Community Health**

The Corporation, on behalf of the Hospitals, cofounded Willamette Valley Community Health (WVCH) with nine other providers of healthcare in Marion and Polk Counties. WVCH is an Oregon limited liability company and is certified by the Oregon Health Authority as a coordinated care organization (CCO). Section 26 of house bill 3650 provides that CCOs will be responsible for providing fully integrated physical health services, chemical dependency and mental health services, and dental health services. CCOs provide the foregoing health services to Medicaid beneficiaries. WVCH ceased operations as of January 1, 2020 and the entity has been wound down as of June 30, 2022. As a result, the Corporation is accounting for the remaining interest in WVCH under the equity method of accounting. As a result, the Corporation's equity balance in this entity has been reduced to \$0.

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

### (c) *The Salem Ambulatory Surgery Center, LLC*

The Salem Ambulatory Surgery Center, LLC dba Salem Outpatient Surgery Center (SOSC) is a limited liability company whose members are the Corporation and various community physician partners. Equity is allocated 51.0% and 49.0%, respectively, although voting rights are allocated 44.5% and 55.5%, respectively, to the Corporation and the community physician partners. As a result, the Corporation accounts for the investment under the equity method of accounting. SOSC was formed to own, operate, and manage an outpatient surgery center to be located in Salem, Oregon. As of June 30, 2022 the surgery center is still in the pre-operation phase. Salem has issued a notes receivable of \$6,121 to SOSC for the year ended June 30, 2022.

### (9) Long-Term Debt

Long-term debt consisted of the following at June 30, 2022 and 2021:

	2022	2021
Hospital Revenue Bonds, Series 2016A; payable in installments from \$2,010 to \$15,490 beginning in 2017 through 2046; interest at rates ranging from 2.00% to 5.00%	\$ 177,085	179,180
Hospital Revenue Bonds, Series 2019A; payable in installments from \$5,725 to \$14,710 beginning in 2020 through 2049; interest at rates ranging from 3.00% to 5.00%	266,460	272,465
Finance lease liability (a)	7,424	8,309
Unamortized cost of issuance	(1,369)	(1,422)
Unamortized premium on bonds, net	47,381	50,305
	496,981	508,837
Less current portion	(12,215)	(11,909)
	\$ 484,766	496,928

(a) The interest rate on the lease financing obligation was 1.96% at June 30, 2022. For more information on our lease financing obligations, see Note 12, Leases.

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

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

In October 2019, Salem entered into a loan agreement with the Authority, whereby the Authority issued \$279,480 of par amount fixed-rate, tax-exempt revenue refunding bonds (Series 2019A Bonds). The proceeds from Series 2019A were used to (i) refund, redeem and defease the 2008B Bonds, (ii) terminate

**SALEM HEALTH HOSPITALS AND CLINICS**

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

and the settle the interest rate swap associated with 2008B Bonds, (iii) finance the construction of a new hospital tower on the Corporation's main campus scheduled for completion in early fiscal year 2023, and (iv) pay fees and expenses related to the Series 2019A Bonds.

Salem Health may borrow up to \$100,000 under its line of credit agreement. There were no outstanding borrowings against the line at June 30, 2022 and 2021, respectively.

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

	<b>Revenue bonds</b>	
	<hr/>	
2023	\$	8,445
2024		8,870
2025		9,310
2026		9,710
2027		10,170
Thereafter		<hr/> 397,040
	\$	<hr/> <b>443,545</b> <hr/>

**(10) Net Assets with Donor Restrictions**

Net assets were restricted for the following purposes at June 30, 2022 and 2021:

	<b>2022</b>	<b>2021</b>
	<hr/>	<hr/>
Subject to expenditure for specified purpose:		
Acquisition or construction of property and equipment for the hospitals	\$ 4,094	2,268
Specific programs of the hospitals	2,472	2,464
Scholarships	450	332
Other	<hr/> 360	<hr/> 380
	<hr/> 7,376	<hr/> 5,444
Donor-restricted endowed funds:		
Acquisition or construction of property and equipment for the hospitals	1,091	1,091
Specific programs of the hospitals	538	538
Scholarships	357	357
Other	<hr/> 291	<hr/> 291
	<hr/> 2,277	<hr/> 2,277
Total donor restricted net assets	\$ <b><hr/>9,653</b>	<b><hr/>7,721</b> <hr/>

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

### (11) Retirement and Postretirement Plans

#### (a) *Defined-Contribution Retirement Plan*

The Hospitals have a contributory, defined-contribution retirement plan (the Retirement Plan) covering substantially all full-time employees. All eligible employees are allowed to contribute to the Retirement Plan on the first day of the month following their date of hire. The Hospitals contribute 5.5% to 8.5% of participating employees' annual compensation to the Retirement Plan. To receive the benefit of the Hospitals' contributions, employees must have one year or more of service at one of the Hospitals and contribute at least 1.0% of their annual compensation to the Retirement Plan. The Retirement Plan's costs were \$23,941 and \$23,975 for the fiscal years ended June 30, 2022 and 2021, respectively, and are included in labor and benefits in the accompanying consolidated statements of operations.

#### (b) *Postretirement Healthcare Plan*

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

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

**SALEM HEALTH HOSPITALS AND CLINICS**

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

The accrued liability for postretirement benefits at June 30, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 3,594	6,774
Service cost	—	—
Interest cost	44	72
Participants' contributions	442	570
Actuarial gain	(978)	(2,682)
Benefits paid	<u>(820)</u>	<u>(1,140)</u>
Benefit obligation at end of year	\$ <u>2,282</u>	<u>3,594</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ —	—
The Hospitals' contributions	378	570
Participants' contributions	442	570
Benefits paid	<u>(820)</u>	<u>(1,140)</u>
Fair value of plan assets at end of year	\$ <u>—</u>	<u>—</u>

A reconciliation of the Postretirement Plan's funded status at June 30, 2022 and 2021 and to the Hospitals' accrued postretirement healthcare benefits at June 30, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
Funded status	\$ 2,282	3,594
Current portion of accrued postretirement healthcare benefits	<u>(281)</u>	<u>(378)</u>
Long-term portion of accrued postretirement healthcare benefits	\$ <u>2,001</u>	<u>3,216</u>

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

The service cost component of the Hospitals' net periodic postretirement benefit cost included in labor and benefits and the other components of the Hospitals' net periodic postretirement benefit cost are

**SALEM HEALTH HOSPITALS AND CLINICS**

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

included in other, net in the accompanying consolidated statements of operations for the fiscal years ended June 30, 2022 and 2021 were as follows:

	<b>12 months ended June 30</b>	
	<b>2022</b>	<b>2021</b>
Service cost	\$ —	—
Interest cost	44	72
Net periodic postretirement benefit cost	<u>\$ 44</u>	<u>72</u>

Losses (gains) accumulated in net assets without donor restrictions in the accompanying consolidated statements of changes in net assets through the fiscal years ended June 30, 2022 and 2021 were \$(2,659) and (\$2,458), respectively. The components of the Hospitals' other changes in plan assets and benefit obligations recognized in net assets without donor restrictions in the accompanying consolidated statements of changes in net assets for the fiscal years ended June 30, 2022 and 2021 were as follows:

	<b>12 months ended June 30</b>	
	<b>2022</b>	<b>2021</b>
Net (gain) loss	\$ (978)	(2,682)
Amortization of net loss	777	—
Total recognized in net assets without donor restrictions	<u>\$ (201)</u>	<u>(2,682)</u>

Weighted average assumptions used to determine benefit obligations for June 30, 2022 and 2021 were as follows:

	<b>2022</b>	<b>2021</b>
Discount rate	3.73 %	1.30 %
Rate of compensation increase	3.75	3.75

For actuarial measurement purposes, annual rate increases in the per capita cost of covered healthcare benefits of 7.30% (pre-65) and 4.80% (post-65) were assumed for 2021 through 2022. Thereafter, the rate was assumed to decrease by approximately 1.4% percentage point on an annual basis to 4.97% in 2031 and then decrease gradually to 3.94%. For the fiscal year ended June 30, 2022, the Corporation utilized the PRI-2012 total dataset Mortality Table with the MP-2021 Mortality Improvement Scale for estimating the actuarial values. For the fiscal year ended June 30, 2021, the Corporation utilized the PRI-2012 Mortality Table with the MP-2020 Mortality Improvement Scale for estimating the actuarial values.

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

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

2023	\$	281
2024		334
2025		369
2026		408
2027		417
2028–2032		764

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

### (12) Leases

The Corporation leases medical and administrative office buildings and equipment to support operations. The operating and finance leases are reflected within the consolidated balance sheets as follows at June 30, 2022 and 2021:

	June 30, 2022		
	Operating leases	Finance leases	Total
Assets:			
Rental and other property, net	\$ 8,795	—	8,795
Property and equipment, net	—	13,035	13,035
Total leased assets	\$ 8,795	13,035	21,830
Liabilities:			
Lease liabilities due within one year:			
Accrued liabilities other	\$ 2,713	—	2,713
Current portion of long-term debt	—	903	903
Long-term lease liabilities:			
Other long-term liabilities	6,282	—	6,282
Long-term debt, net of current portion	—	6,521	6,521
Total lease liabilities	\$ 8,995	7,424	16,419

**SALEM HEALTH HOSPITALS AND CLINICS**

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

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

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

The Corporation incurred lease expenses for the year ended June 30, 2022 and 2021 as follows:

	<u>2022</u>	<u>2021</u>
Finance lease expense included in depreciation and amortization:		
Amortization of ROU assets	\$ 1,819	1,819
Finance lease expense included in interest:		
Interest on lease liabilities	153	168
Total finance lease expense	<u>\$ 1,972</u>	<u>1,987</u>
Operating lease expense included in purchased services and other	\$ 3,228	4,016
Operating lease expense included in other, net	593	593
Short-term lease expense included in purchased services and other	1,234	1,595
Short-term lease expense included in other, net	227	235
Total operating lease expense	<u>\$ 5,282</u>	<u>6,439</u>



## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

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

#### (14) Commitments and Contingencies

##### (a) General and Professional Liability Insurance

On a claims-made basis, WVIC provides excess insurance coverage up to a \$1,000 self-insured retention limit per occurrence and \$6,000 annual aggregate limit for healthcare professional liability (\$1,000/\$6,000 limits) for Salem and West Valley for the years ending June 30, 2022 and 2021. In excess of the \$1,000/\$6,000 limits, the Hospitals annually purchase reinsurance coverage for claims up to \$34,000 in aggregate on a claims-made basis. Reinsurance contracts do not relieve the Corporation from its obligations to claimants. Failure of reinsurers to honor their obligations could result in losses to the Corporation. The Corporation evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurer to manage its exposure to significant losses from reinsurer insolvencies.

General and professional liability costs are accrued based upon an actuarial determination with estimated incurred-but-not-reported professional liability losses recorded at the expected, undiscounted level. The Corporation has recorded estimated liabilities for incurred-but-not-reported professional liability claims and for deductibles on reported claims aggregating \$10,098 and \$12,347 as of June 30, 2022 and 2021, respectively. The estimated liabilities for incurred-but-not-reported medical claims are recorded on the Hospitals' books. WVIC carries the estimated liabilities for deductibles on reported claims. Management believes that these estimated liabilities are adequate; however, the establishment of estimated liabilities for incurred-but-not-reported medical malpractice claims and for deductibles on reported claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact operations in future periods.

The Corporation records claim liabilities without consideration of insurance recoveries and receivables for insurance recoveries to be reported separately subject to a valuation allowance as appropriate. The Corporation recorded an asset for insurance recoveries receivable and estimated liabilities in the amount of \$2,292 and \$2,874 as of June 30, 2022 and 2021, respectively. The insurance recovery receivable and insured claims liability are included in other noncurrent assets and estimated medical

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

malpractice claims liability in the accompanying consolidated balance sheets. No valuation allowance was recorded related to reinsurance receivables as of June 30, 2022 and 2021.

### **(b) Self-Insured Employee Benefits**

The Corporation is self-insured for employee's medical and dental claims. Claims are accrued as incurred. The Corporation has recorded an accrual for the estimated claims, including estimates of the ultimate costs for both reported claims and claims incurred but not reported of \$7,109 and \$5,417 as of June 30, 2022 and 2021, respectively. Management believes that these amounts, which have been included within other accrued liabilities in the accompanying consolidated balance sheets, are adequate to cover estimated employee's medical and dental claims.

### **(c) Risk Management**

In the ordinary course of business, the Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the fiscal year ended June 30, 2022 or 2021. The Corporation is self-insured for workers' compensation claims. The Corporation has recorded estimated liabilities for claims in the amount of \$4,187 and \$2,004 as of June 30, 2022 and 2021, respectively, which have been included in "other accrued liabilities" in the accompanying balance sheet.

### **(d) Regulation and Litigation**

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

### **(15) Lean Initiatives (Unaudited)**

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

## SALEM HEALTH HOSPITALS AND CLINICS

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

In fiscal years 2022 and 2021, the Corporation had a strategic goal to engage frontline staff in leading and completing a Lean activity to remove waste from the system, creating improved value for their patients.

	<b>12 months ended June 30</b>	
	<b>2022</b>	<b>2021</b>
	(Not in thousands)	
% of front line staff leading and completing a Lean activity	97 %	100 %
Total lean activities completed	6,813	7,574

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

### **(16) Subsequent Events**

The Corporation evaluated subsequent events after the consolidated balance sheet date of June 30, 2022 through October 7, 2022 which was the date the consolidated financial statements were issued.

## SALEM HEALTH HOSPITALS AND CLINICS

## Supplemental Schedule – Consolidating Balance Sheet Information

June 30, 2022

(In Thousands)

	Obligated group				Salem Health West Valley	Salem Hospital Foundation	West Valley Hospital Foundation	Willamette Valley Insurance Corporation	Willamette Valley Professional Services	Non-obligated consolidating entries	Non-obligated group	Consolidated FY22	Consolidated FY21	
	Salem Health	Parent Holding Company	Obligated Group CE	Parent and consolidating entries										Obligated group total
Current assets:														
Cash and cash equivalents	\$ 14,736	139	—	139	14,875	310	2,858	213	312	—	—	3,693	18,568	36,034
Patient accounts receivable, net	122,235	—	—	—	122,235	6,029	—	—	—	—	—	6,029	128,264	123,560
Other receivables	13,064	2,176	—	2,176	15,240	45,012	7	1	—	—	(42,619)	2,401	17,641	18,552
Supplies inventory	10,790	—	—	—	10,790	723	—	—	—	—	—	723	11,513	9,692
Prepaid expense and other	16,737	—	—	—	16,737	195	16	—	—	—	—	211	16,948	13,818
Total current assets	177,562	2,315	—	2,315	179,877	52,269	2,881	214	312	—	(42,619)	13,057	192,934	201,656
Investments	1,096,077	851,419	(1,057,566)	(206,147)	889,930	—	7,328	103	20,222	—	—	27,653	917,583	1,141,819
Property and equipment, net	360,610	306,125	—	306,125	666,735	5,180	—	—	—	—	—	5,180	671,915	607,469
Rental and other property held for future development, net	8,634	45,198	—	45,198	53,832	161	692	—	—	—	—	853	54,685	62,324
Investments in health related entities	42,464	—	—	—	42,464	—	—	—	—	—	(14,768)	(14,768)	27,696	21,980
Other noncurrent assets	36,587	—	—	—	36,587	323	—	—	—	—	(10,176)	(9,853)	26,734	15,821
Total assets	\$ 1,721,934	1,205,057	(1,057,566)	147,491	1,869,425	57,933	10,901	317	20,534	—	(67,563)	22,122	1,891,547	2,051,069

## SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Balance Sheet Information

June 30, 2022

(In Thousands)

	Obligated group				Salem Health West Valley	Salem Hospital Foundation	West Valley Hospital Foundation	Willamette Valley Insurance Corporation	Willamette Valley Professional Services	Non-obligated consolidating entries	Non-obligated group	Consolidated FY22	Consolidated FY21	
	Salem Health	Parent Holding Company	Obligated Group CE	Parent and consolidating entries										Obligated group total
Current liabilities:														
Accounts payable	\$ 104,523	1,068,688	(1,057,566)	11,122	115,645	3,331	(3,540)	14	205	—	(42,723)	(42,713)	72,932	76,335
Accrued liabilities:														
Payroll, payroll taxes, and withholdings	15,498	—	—	—	15,498	483	—	—	—	—	—	483	15,981	33,175
Paid time off	27,526	—	—	—	27,526	1,234	—	—	—	—	—	1,234	28,760	26,661
Other	18,190	—	—	—	18,190	657	—	—	—	—	—	657	18,847	15,005
Estimated third-party payor settlements, net	5,733	187	—	187	5,920	1,503	—	—	—	—	—	1,503	7,423	10,584
Current portion of long-term debt	12,215	—	—	—	12,215	—	—	—	—	—	—	—	12,215	11,909
Current portion of estimated professional liability	2,082	—	—	—	2,082	163	—	—	—	—	—	163	2,245	2,218
Total current liabilities	185,767	1,068,875	(1,057,566)	11,309	197,076	7,371	(3,540)	14	205	—	(42,723)	(38,673)	158,403	175,887
Long-term debt, net of current portion	484,766	—	—	—	484,766	—	3,700	—	—	—	(3,700)	—	484,766	496,928
Accrued postretirement healthcare benefits	1,912	—	—	—	1,912	89	—	—	—	—	—	89	2,001	3,216
Other long-term liabilities	6,321	—	—	—	6,321	27	—	—	—	—	—	27	6,348	7,152
Estimated medical malpractice claims liability	2,292	—	—	—	2,292	—	—	—	5,561	—	—	5,561	7,853	10,129
Total liabilities	681,058	1,068,875	(1,057,566)	11,309	692,367	7,487	160	14	5,766	—	(46,423)	(32,996)	659,371	693,312
Net assets:														
Without donor restrictions	1,034,447	136,182	—	136,182	1,170,629	50,400	1,211	180	14,768	—	(14,665)	51,894	1,222,523	1,350,036
With donor restrictions	6,429	—	—	—	6,429	46	9,530	123	—	—	(6,475)	3,224	9,653	7,721
Total net assets	1,040,876	136,182	—	136,182	1,177,058	50,446	10,741	303	14,768	—	(21,140)	55,118	1,232,176	1,357,757
Total liabilities and net assets	\$ 1,721,934	1,205,057	(1,057,566)	147,491	1,869,425	57,933	10,901	317	20,534	—	(67,563)	22,122	1,891,547	2,051,069

See accompanying independent auditors' report.

## SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Statement of Operations Information

Fiscal year ending June 30, 2022

(In Thousands)

	Obligated group				Salem Health West Valley	Salem Hospital Foundation	West Valley Hospital Foundation	Willamette Valley Insurance Corporation	Willamette Valley Professional Services	Non-obligated consolidating entries	Non-obligated group	Consolidated FY22	Consolidated FY21
	Salem Health	Parent Holding Company	Obligated Group CE	Parent and consolidating entries									
Operating revenue:													
Net patient service revenue	\$ 914,145	—	—	—	914,145	51,109	—	—	—	—	51,109	965,254	909,024
Other revenue	44,718	8,119	—	8,119	52,837	957	689	34	—	(3,015)	(1,335)	51,502	44,174
Net assets released from restriction used for operations	—	—	—	—	—	—	245	54	—	—	299	299	193
Total operating revenue	<u>958,863</u>	<u>8,119</u>	<u>—</u>	<u>8,119</u>	<u>966,982</u>	<u>52,066</u>	<u>934</u>	<u>88</u>	<u>—</u>	<u>(3,015)</u>	<u>50,073</u>	<u>1,017,055</u>	<u>953,391</u>
Operating expenses:													
Labor and benefits	638,168	—	—	—	638,168	25,072	—	—	—	—	25,072	663,240	542,072
Medical and other supplies	134,528	—	—	—	134,528	3,916	3	—	—	(48)	3,871	138,399	132,405
Purchased services and other	171,077	—	(47,785)	(47,785)	123,292	9,326	1,430	56	264	(1,978)	9,098	132,390	123,598
Depreciation	24,218	22,589	—	22,589	46,807	488	—	—	—	—	488	47,295	50,863
Professional fees	26,785	—	—	—	26,785	872	1	—	78	—	951	27,736	19,734
Interest and amortization	11,178	—	—	—	11,178	—	—	—	—	—	—	11,178	12,713
Total operating expenses	<u>1,005,954</u>	<u>22,589</u>	<u>(47,785)</u>	<u>(25,196)</u>	<u>980,758</u>	<u>39,674</u>	<u>1,434</u>	<u>56</u>	<u>342</u>	<u>(2,026)</u>	<u>39,480</u>	<u>1,020,238</u>	<u>881,385</u>
(Deficit) excess of revenue over expenses from operations	<u>(47,091)</u>	<u>(14,470)</u>	<u>47,785</u>	<u>33,315</u>	<u>(13,776)</u>	<u>12,392</u>	<u>(500)</u>	<u>32</u>	<u>(342)</u>	<u>—</u>	<u>(989)</u>	<u>10,593</u>	<u>(3,183)</u>
Other income (loss):													
Investment (loss) income, net	1,244	(117,027)	—	(117,027)	(115,783)	—	(1,847)	(16)	(772)	—	(2,635)	(118,418)	173,371
Gain on disposal of property and equipment	10	—	—	—	10	(6)	—	—	—	—	(6)	4	172
Other, net	(8,611)	48,178	(47,785)	393	(8,218)	—	—	—	—	3,408	3,408	(4,810)	(6,342)
Total other income (Expense)	<u>(7,357)</u>	<u>(68,849)</u>	<u>(47,785)</u>	<u>(116,634)</u>	<u>(123,991)</u>	<u>(6)</u>	<u>(1,847)</u>	<u>(16)</u>	<u>(772)</u>	<u>—</u>	<u>3,408</u>	<u>(123,224)</u>	<u>167,201</u>
(Deficit) excess of revenue over expenses	<u>(54,448)</u>	<u>(83,319)</u>	<u>—</u>	<u>(83,319)</u>	<u>(137,767)</u>	<u>12,386</u>	<u>(2,347)</u>	<u>16</u>	<u>(1,114)</u>	<u>—</u>	<u>2,419</u>	<u>(126,407)</u>	<u>239,207</u>
Change in net unrealized gain (loss) on other-than-trading securities	—	—	—	—	—	—	—	—	(1,307)	—	(1,307)	(1,307)	(361)
Change in postretirement benefit obligation	183	—	—	—	183	18	—	—	—	—	18	201	2,682
Net assets released from restriction used for property and equipment	—	—	—	—	—	—	—	—	—	—	—	—	140
Change in net assets	<u>\$ (54,265)</u>	<u>(83,319)</u>	<u>—</u>	<u>(83,319)</u>	<u>(137,584)</u>	<u>12,404</u>	<u>(2,347)</u>	<u>16</u>	<u>(2,421)</u>	<u>—</u>	<u>2,419</u>	<u>(127,513)</u>	<u>241,668</u>

See accompanying independent auditors' report.