ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Financial Statements
and Supplementary Schedules

December 31, 2022 and 2021

(With Independent Auditors' Report Thereon)

ST. CHARLES HEALTH SYSTEM, INC.

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

Independent Auditors' Report

Board of Directors
St. Charles Health System, Inc.:

Opinion

We have audited the consolidated financial statements of St. Charles Health System, Inc. and its subsidiaries (the Corporation), which comprise the consolidated balance sheets as of December 31, 2022 and 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 Corporation as of December 31, 2022 and 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 Corporation 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 Corporation'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 Corporation'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 Corporation'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 schedules I and II is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the 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.

KPMG LLP

Portland, Oregon
April 12, 2023

ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Balance Sheets

December 31, 2022 and 2021

Assets	2022	2021
Current assets:		
Cash and cash equivalents	$ 93,451,000	$ 126,106,000
Investments, current portion	6,238,000	6,259,000
Patient accounts receivable, net of allowances	106,333,000	112,512,000
Other receivables, net	25,951,000	23,763,000
Supplies inventory	17,070,000	17,079,000
Prepaid expenses and other current assets	15,101,000	11,922,000
Total current assets	264,144,000	297,641,000
Investments, net of current portion	641,507,000	779,501,000
Property and equipment, net	375,968,000	404,045,000
Other assets	8,837,000	8,299,000
Total assets	$ 1,290,456,000	$ 1,489,486,000
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 45,840,000	$ 49,559,000
Accrued liabilities	84,023,000	77,936,000
Estimated third-party payor settlements payable, net	4,564,000	6,022,000
Deferred revenue	6,329,000	5,049,000
Medicare advance payments	—	60,967,000
Long-term obligations, current portion	4,289,000	4,438,000
Total current liabilities	145,045,000	203,971,000
Long-term obligations, net of current portion	381,072,000	386,362,000
Other liabilities	21,528,000	22,639,000
Total liabilities	547,645,000	612,972,000
Net assets:		
SCHS:		
Without donor restrictions	731,716,000	865,272,000
With donor restrictions	6,058,000	6,689,000
Noncontrolling interests:		
Without donor restrictions	5,037,000	4,553,000
Total net assets	742,811,000	876,514,000
Total liabilities and net assets	$ 1,290,456,000	$ 1,489,486,000

See accompanying notes to consolidated financial statements.

ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Statements of Operations

Years ended December 31, 2022 and 2021

	2022	2021
Operating revenue:		
Patient service revenue	$ 813,937,000	$ 772,202,000
Premium revenue	97,013,000	86,462,000
Other revenue	96,892,000	114,759,000
Total operating revenue	1,007,842,000	973,423,000
Expenses:		
Salaries and wages	534,958,000	486,885,000
Employee benefits	119,237,000	108,320,000
Professional fees and assessments	61,682,000	70,369,000
Depreciation	42,913,000	45,672,000
Interest	12,294,000	12,904,000
Medical supplies, drugs, and other	272,353,000	265,684,000
Total expenses	1,043,437,000	989,834,000
Deficit of revenue over expenses from operations	(35,595,000)	(16,411,000)
Other (loss) income:		
Investment, net	(88,496,000)	65,140,000
Other, net	2,102,000	2,772,000
Total other income (loss), net	(86,394,000)	67,912,000
(Deficit) excess of revenue over expenses	(121,989,000)	51,501,000
Net assets released from donor restriction	602,000	773,000
Other transfers	(499,000)	(420,000)
Distributions to noncontrolling interests	(11,186,000)	(10,192,000)
(Decrease) increase in net assets without donor restrictions	$ (133,072,000)	$ 41,662,000

See accompanying notes to consolidated financial statements.

ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2022 and 2021

	SCHS – Without donor restrictions	SCHS – With donor restrictions	Noncontrolling interests – without donor restrictions	Total
Net assets at December 31, 2020	$ 824,044,000	$ 6,578,000	$ 4,119,000	$ 834,741,000
Excess of revenue over expenses	40,875,000	—	10,626,000	51,501,000
Donor-restricted contributions	—	804,000	—	804,000
Net assets released from donor restriction	773,000	(1,443,000)	—	(670,000)
Other transfers	(420,000)	420,000	—	—
Distributions	—	—	(10,192,000)	(10,192,000)
Other changes in net assets	—	330,000	—	330,000
Change in net assets	41,228,000	111,000	434,000	41,773,000
Net assets at December 31, 2021	865,272,000	6,689,000	4,553,000	876,514,000
(Deficit) excess of revenue over expenses	(133,659,000)	—	11,670,000	(121,989,000)
Donor-restricted contributions	—	489,000	—	489,000
Net assets released from donor restriction	602,000	(1,316,000)	—	(714,000)
Other transfers	(499,000)	499,000	—	—
Distributions	—	—	(11,186,000)	(11,186,000)
Other changes in net assets	—	(303,000)	—	(303,000)
Change in net assets	(133,556,000)	(631,000)	484,000	(133,703,000)
Net assets at December 31, 2022	$ 731,716,000	$ 6,058,000	$ 5,037,000	$ 742,811,000

See accompanying notes to consolidated financial statements.

ST. CHARLES HEALTH SYSTEM, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ (133,703,000)	$ 41,773,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	45,409,000	46,869,000
Net (gain) loss on investments	88,496,000	(65,140,000)
Gain on sale of property and equipment	(47,000)	(34,000)
Amortization and accretion of debt obligation	(531,000)	(541,000)
Restricted contributions	(489,000)	(804,000)
Distributions to noncontrolling interests	11,186,000	10,192,000
Changes in certain operating assets and liabilities:		
Patient accounts receivable, net of allowances	6,179,000	(22,899,000)
Other receivables, net	(2,188,000)	(991,000)
Supplies inventory	9,000	(1,167,000)
Other assets	(9,661,000)	(6,685,000)
Accounts payable	(2,383,000)	4,760,000
Accrued liabilities	6,033,000	(809,000)
Estimated third-party payor settlements payable, net	(1,458,000)	4,562,000
Medicare advance payments	(60,967,000)	(34,406,000)
Deferred revenue	1,280,000	1,150,000
Other liabilities	(1,111,000)	(6,208,000)
Net cash used in operating activities	(53,946,000)	(30,378,000)
Cash flows from investing activities:		
Purchases of investments	(315,138,000)	(51,798,000)
Proceeds from sales and maturities of investments	364,657,000	69,829,000
Distributions received from joint ventures	6,002,000	6,209,000
Contributions made to joint ventures	(58,000)	(604,000)
Purchases of property and equipment	(18,887,000)	(23,646,000)
Proceeds from sale of assets	320,000	97,000
Net cash provided by investing activities	36,896,000	87,000
Cash flows from financing activities:		
Payments on long-term obligations	(83,728,000)	(8,325,000)
Proceeds from issuance of long-term obligations	78,820,000	—
Proceeds from restricted contributions	489,000	804,000
Distributions paid to noncontrolling interests	(11,186,000)	(10,192,000)
Net cash used in financing activities	(15,605,000)	(17,713,000)
Net decrease in cash and cash equivalents	(32,655,000)	(48,004,000)
Cash and cash equivalents at beginning of year	126,106,000	174,110,000
Cash and cash equivalents at end of year	$ 93,451,000	$ 126,106,000
Supplemental disclosures:		
Cash paid for interest, net of amounts capitalized	$ 11,418,000	$ 11,787,000
Noncash change in property and equipment in accounts payable and accrued liabilities	(1,282,000)	(18,000)
Finance and operating lease right of use assets acquired	1,636,000	2,810,000

See accompanying notes to consolidated financial statements.

(1) Business, Organization, and Summary of Significant Accounting Policies

(a) Business and Organization

St. Charles Health System, Inc. (SCHS or the Corporation) is an Oregon nonprofit corporation that operates a healthcare delivery system, which includes hospitals in Central Oregon. The flagship hospital is located in Bend with an affiliated campus in Redmond. In addition, St. Charles owns and operates Critical Access Hospitals (CAH) in Madras and Prineville, as well as several other lines of healthcare related businesses. SCHS provides healthcare and healthcare related services primarily to residents in Central, Southeastern, and Eastern Oregon. The Corporation contributes actuarially determined amounts to a self insurance trust (the Trust) established to fund estimated ultimate losses related to professional liability claims. These healthcare businesses and subsidiaries, along with the Corporation's home office, form the obligated group. The assets of each one are available for the satisfaction of debts of the others within the obligated group (subject to certain contractual limitations).

St. Charles Madras and St. Charles Prineville are CAHs for Medicare and Medicaid program purposes. As CAHs, St. Charles Madras and St. Charles Prineville cannot operate more than 25 beds, and the average length of stay for acute care patients cannot exceed 96 hours. As CAHs, St. Charles Madras and St. Charles Prineville are reimbursed for Medicare and Medicaid inpatient and outpatient services under a cost-reimbursement methodology.

The St. Charles Foundation, Inc. (SCF), an Oregon nonprofit corporation, was established to engage in and conduct charitable, educational, and scientific activities and to raise funds in support of SCHS. The Corporation is the sole member of SCF, and SCF is included in the consolidated financial statements of SCHS but is not a member of the obligated group. The net assets of SCF are reported as with or without donor restrictions, according to donor or legal restrictions, in the accompanying consolidated financial statements. Donor restrictions can be for time and/or purpose restrictions. Certain donor restrictions are intended to be maintained in perpetuity and related balances are included in SCHS' endowed assets.

Cascade Medical Buildings, LLC (CMB), a limited liability company, was established to build, own, and manage a medical office building on the St. Charles Bend campus. The Corporation is the sole member of CMB, and CMB is included in the consolidated financial statements of SCHS but is not a member of the obligated group.

SCHS has a controlling interest in Cascade Medical Imaging, LLC (CMI). CMI is a limited liability corporation whose two members are SCHS (70% ownership interest) and Central Oregon Radiology Associates, P.C. (CORA) (30% ownership interest). CMI provides positron emission tomography scanning, computer-assisted tomography scanning, nuclear medicine, mammography, and picture archiving and communications system services in Central, Southeastern, and Eastern Oregon. CMI has been consolidated into the financial statements of SCHS but is not part of the obligated group.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts and transactions of SCHS, the Trust, SCF, CMB, and CMI. All material intercompany accounts and transactions have been eliminated in consolidation.

(c) Consolidated Statements of Operations

For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as operating revenue and expenses. SCHS' income from investments in healthcare-related joint ventures recorded using the equity method of accounting is reported as other revenue within operating revenue. Additional revenue not related to SCHS' core operations is reported as other income.

The performance indicator for the accompanying consolidated statements of operations is (deficit) excess of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from the excess of revenue over expenses, consistent with industry practice, include the change in net assets released from donor restrictions used for purchases of property and equipment, contributions for property and equipment, distributions to noncontrolling interests, and net asset transfers.

(d) Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue, income, gains, expenses, and losses during the reporting period. Actual results could differ from those estimates. The significant estimates in the Corporation's consolidated financial statements include patient accounts receivable allowances, receivables for capitation risk withhold returns and surpluses, and liabilities related to self-insurance programs.

(e) Cash and Cash Equivalents

Cash and cash equivalents consist of petty cash, cash in demand bank accounts, and bank deposit money market accounts. Amounts held in demand bank accounts are often in excess of Federal Deposit Insurance Corporation coverage levels. Cash equivalents exclude amounts held for donor or trustee restrictions and amounts held within the investment portfolio.

(f) Investments

Investments primarily consist of assets internally designated for future capital acquisitions and operating purposes (over which SCHS retains control and may, at its discretion, subsequently use for other purposes), assets held by a trustee under bond indenture agreements, assets held in the Trust, assets held in a 457b deferred contribution retirement plan, and funds held to meet donor restrictions held by SCF. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices in the accompanying consolidated financial statements.

The investment in the Oregon Community Foundation (OCF) represents a beneficial interest in a recipient organization. The investments are used solely to support the endowments of SCHS and are recorded as a beneficial interest by SCHS in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 958-20, *Not-for-Profit Entities – Financially Interrelated Entities*, regarding financially interrelated not-for-profit entities. The investments, which represent an endowment fund that is legally owned by the OCF, primarily include equity securities and fixed-income investments. SCHS' investment in the OCF is recorded based on its initial contribution to the OCF, adjusted for changes in the value of the investment portfolio using a method that is similar to the equity method of accounting for investments in common stock. All earnings of the investments held by the OCF, less investment management fees charged by the OCF are allocated by the OCF and are recorded by SCHS as investment earnings in the consolidated statements of operations within the appropriate category of net assets based on related donor restrictions. Earnings consist of interest, dividends, realized gains and losses, and changes in unrealized gains and losses. Funds held by the OCF may be distributed once per quarter, subject to approval by the OCF board of directors.

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 of SCHS' investments. Furthermore, while SCHS believes that 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.

Investment income or loss (including interest, dividends, realized gains and losses, and unrealized gains and losses) is included in the (deficit) excess of revenue over expenses unless the income or loss is restricted by donor.

Trading securities are debt and equity securities including those held in commingled funds. The Corporation classifies all of its investments in internally designated assets as trading securities, based on the nature of trading activity in its portfolio by the Corporation's investment manager.

As of December 31, 2022 and 2021, the Corporation had investments in commingled funds, equity and fixed-income mutual funds, cash surrender value of life insurance, and an interest in the OCF. Management believes that the Corporation's credit risk with respect to these investments is minimal 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 fair value of the Corporation's investments can be volatile. Consequently, the fair value of the Corporation's investments can significantly change in the near term as a result of such volatility.

(g) Supplies Inventory

Supplies inventory is recorded at the lower of cost (average cost) or net realizable value.

(h) Property and Equipment

Property and equipment acquisitions are recorded at cost. Donated property and equipment items are recorded on the basis of estimated fair value at the date of donation. Improvements and replacements of property and equipment are capitalized. Maintenance and repairs are charged to expense as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Net interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Estimated useful lives are as follows:

Land improvements	5 – 25 Years
Buildings and fixed equipment	5 – 40 Years
Furniture and movable equipment	3 – 20 Years

Contributions of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions as contributions when the donated or acquired long-lived assets are placed in service.

(i) 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.

(j) Contributions and Grants

Contributions without donor restrictions and grants are recorded as other revenue. Contributions with donor restrictions are recorded as additions to net assets with donor restrictions. When capital expenditures are made consistent with the purpose intended by the donor, a transfer is made from net assets with donor restrictions to net assets without donor restrictions. If donor-restricted amounts are expended for operations, the amounts are recorded as other revenue in the accompanying consolidated statements of operations. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restriction. Conditional contributions and grants are not recognized until such conditions are met.

Donated services that meet the criteria for recognition in accordance with U.S. GAAP are reported as other revenue and salaries and wages expenses in amounts equal to their estimated fair value on the date of receipt. Approximately $24,376,000 and $31,037,000 of gifts-in-kind services of healthcare professionals were provided to the Organization in 2022 and 2021, respectively.

(k) Other Assets

Other assets include SCHS' investments in various related entities, which are not consolidated. SCHS consolidates such investees if it owns a majority of the investee's stock, is the sole member of the investee, or controls a majority voting interest in the investee's board of directors and has an economic interest in such investee. If SCHS 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 to be when SCHS owns more than 20% of the voting stock of the investee), SCHS accounts for such investments under the equity method of accounting, whereby SCHS 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. If SCHS cannot exercise significant influence over the investee's operating and financial policies (generally presumed to be when SCHS owns less than 20% of the voting stock of the investee), SCHS accounts for such investments at cost and records dividends or distributions from the investee as other income when received.

(l) Patient Service Revenue

Patient service revenue is related to and reported at the amount that reflects the consideration to which SCHS expects to be entitled in exchange for providing healthcare services to patients. These amounts are due from patients, third-party payors, and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Variable consideration is included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainly associated with the variable consideration is subsequently resolved. Third-party payors include government programs and commercial and managed care health insurers. Generally, SCHS bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. SCHS' revenue is recognized based on charges incurred in relation to total expected charges. SCHS measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. SCHS' performance obligations for outpatient services are generally satisfied over a period of less than one day.

Because all of its performance obligations relate to contracts with a duration of one year or less, SCHS has elected to apply the optional exemption provided in FASB ASC paragraph 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services and bedded outpatient services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

SCHS has elected the practical expedient option allowed under FASB ASC paragraph 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 SCHS' 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, SCHS 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.

SCHS has applied the practical expedient option provided by FASB ASC paragraph 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that SCHS otherwise would have recognized is one year or less in duration.

(m) State of Oregon Provider Tax

Effective July 1, 2004, the state of Oregon instituted a provider tax on certain qualifying hospitals. SCHS recorded provider taxes of approximately $47,999,000 and $45,307,000 for the years ended December 31, 2022 and 2021, respectively, which are included in medical supplies, drugs, and other expenses in the accompanying consolidated statements of operations. In addition, SCHS has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments owed to SCHS 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 SCHS. 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. SCHS received $47,522,000 and $44,925,000 for the years ended December 31, 2022 and 2021, respectively, from OAHHS, which are reflected as a component of patient service revenue in the accompanying consolidated statements of operations.

(n) Income Taxes

The Corporation has received a determination letter from the Internal Revenue Service (IRS) stating that it is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Internal Revenue Code. It is management’s belief that none of its activities have produced material unrelated business income, and that SCHS continues to be operated in a manner that qualifies it for tax-exempt status.

Accounting principles generally accepted in the United States of America require SCHS’ management to evaluate tax positions taken by the Corporation and recognize a tax liability (or asset) if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by the Corporation and has concluded that as of December 31, 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 2019.

(o) Reclassifications

Certain reclassifications were made to the 2021 consolidated financial statements and accompanying notes to conform to the 2022 presentation.

(Continued)

(2) Liquidity and Availability

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

	December 31	
	2022	**2021**
Financial assets at year end:		
Cash and cash equivalents	$ 93,451,000	$ 126,106,000
Patient accounts receivable, net of allowances	106,333,000	112,512,000
Investments	647,745,000	785,760,000
Other receivables	25,951,000	23,763,000
Total financial assets	873,480,000	1,048,141,000
Less amounts not available to be used within one year:		
Funds held in deferred compensation retirement plan (457b)	11,176,000	13,030,000
Funds held by trustees	64,484,000	65,740,000
Donor-restricted with liquidity horizons greater than one year	4,508,000	4,327,000
Board-designated endowed funds	3,096,000	3,597,000
Donor-restricted endowed funds	1,764,000	2,116,000
Financial assets not available to be used within one year	85,028,000	88,810,000
Financial assets available to meet general expenditures within one year	$ 788,452,000	$ 959,331,000

SCHS has certain board-designated and donor-restricted investments, which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. SCHS has other investments used for donor-restricted purposes, assets held by a trustee under bond indenture agreements and assets held in the Trust. Additionally, certain other board-designated assets are designated for future capital expenditures and an operating reserve.

As part of the Corporation’s liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds.

In December 2021 the Corporation entered into a line of credit agreement with JPMorgan Chase Bank, N.A. (JPM) for $100,000,000 as discussed in more detail in note 9. No amounts were borrowed in 2022, and as of December 31, 2022, $100,000,000 remained available on the Corporation’s line of credit.

(3) Investments

Investment income, net consisted of the following for the years ended December 31:

		2022		2021
Realized gains on sales of trading securities, net	$	59,354,000	$	13,017,000
Unrealized (losses) gains on trading securities, net		(147,850,000)		52,123,000
Investment (losses) income, net	$	(88,496,000)	$	65,140,000

(4) Patient Service Revenue

SCHS determines transaction prices based on standard charges for goods and services provided to patients, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured or underinsured patients in accordance with SCHS' policy, and/or implicit price concessions provided to the patient. SCHS determines its estimates of price concessions based on contractual agreements, its discount policies, and historical experience. SCHS determines its estimate of implicit price concessions based on its historical collection experience with patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A significant portion of SCHS' services are provided to Medicare, Medicaid, and Oregon Health Plan (OHP) patients under contractual arrangements. Inpatient acute care services rendered by SCHS to Medicare, Medicaid, and OHP program beneficiaries are generally reimbursed at prospectively determined rates per discharge, except for those paid based on capitated per member per month payment arrangements. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors (i.e., Medicare severity diagnosis-related groups or MS-DRGs). Such payments include a capital cost component and may be greater or less than the actual charges for services. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. OHP outpatient services are reimbursed based on a percentage of charges, except for those paid based on capitated per member per month payment arrangements. SCHS is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after audits of SCHS' annual cost reports by the Medicare fiscal intermediary and Medicaid.

SCHS has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations to provide medical services to subscribing participants. The basis for payment to SCHS under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined fee schedules, and certain capitated per member per month payment arrangements.

The laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. There can be no assurance that regulatory authorities will not challenge SCHS' compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon SCHS. As a result, there is at least a reasonable possibility that estimated third-party payor settlements payable, net will change by a material amount in the near term. In addition, the contracts SCHS has with commercial payors also provide for retroactive audit and review of claims.

(Continued)

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and SCHS' historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (i.e., new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Patient service revenue decreased by approximately $1,221,000 and increased by approximately $788,000 for the years ended December 31, 2022 and 2021, respectively, as a result of final settlements of prior years' cost reports and revisions of estimates for prior years' cost report settlements.

SCHS is a health system that serves a large number of Medicaid and uninsured individuals. As a result, Medicaid programs make disproportionate share hospital payments to qualifying hospitals who serve low income patients. Patient service revenue increased by approximately $2,607,000 and decreased by approximately $1,336,000 for the years ended December 31, 2022 and 2021, respectively, as a result of final settlements of prior years' incurred uncompensated care costs.

Subsequent changes that are determined to be the result of an adverse change in the payor's and/or patient's ability to pay are recorded as bad debt expense within operating expenses. Bad debt expense for the years ended December 31, 2022 and 2021 was not significant.

SCHS provides services without charge, or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. SCHS' criteria for the determination of charity care include the patient's or other responsible party's annual household income, the number of people in the home and claimed for income tax purposes, assets, existing medical debt obligations, and other indicators of the patient's ability to pay. Generally, those individuals with an annual household income at or less than 300% of the Federal Poverty Guidelines (the Guidelines) qualify for charity care under SCHS' policy. In addition, SCHS provides discounts on a sliding scale to those individuals with an annual household income of between 301% and 400% of the Guidelines. When assistance available under SCHS' policy does not cover 100% of the gross charges for the services, the amounts charged to patients will not be more than amounts generally billed to patients having insurance. The cost of the services and supplies furnished under the charity care policy for the years ended December 31, 2022 and 2021, net of subsidies was approximately $13,260,000 and $13,603,000, respectively. The Corporation uses a ratio of cost to charges based on the direct and indirect costs and gross charges of SCHS to estimate the cost of providing this charity care. The cost to charge ratio is developed separately for each facility by using certain analysis tools. The weighted average cost to charge ratio used in this determination was 48.4% and 49.1% for the years ended December 31, 2022 and 2021, respectively. The amount of subsidies received by SCHS for providing charity care for the years ended December 31, 2022 and 2021 was approximately $305,000 and $328,000, respectively.

Significant concentrations of patient service revenue, excluding premium revenue, for the years ended December 31 were approximately as follows:

	2022		2021	
Medicare and Medicare managed care contracts	$ 400,486,000	48 %	$ 372,549,000	48 %
Medicaid and OHP, excluding premium revenue	77,558,000	9	69,675,000	9
Commercial and managed care insurance	333,490,000	42	323,437,000	42
Self-pay	2,403,000	1	6,541,000	1
Total	$ 813,937,000	100 %	$ 772,202,000	100 %

The composition of patient service revenue based on the line of business for the years ended December 31 was as follows:

	2022	2021
St. Charles Hospitals	$ 656,409,000	$ 620,795,000
St. Charles Madras CAH	35,693,000	36,524,000
St. Charles Prineville CAH	37,514,000	34,277,000
Clinics	72,871,000	67,439,000
Home Health and Hospice	11,450,000	13,167,000
Total	$ 813,937,000	$ 772,202,000

(5) Premium Revenue

Premium revenue includes amounts received from third-party payors. The service promised is access to integrated healthcare services for a typical term of one month. Premiums are generally based on a prepaid fee, which is paid monthly at a fixed rate, on a per member per month basis. These capitated agreements may include variable consideration in the form of a risk withhold that is earned by meeting definitive process and outcome metrics. Certain aspects of these metrics require a claim run-out period and others can be determined before the claim run-out period. SCHS records risk withhold returns in the period the unique metrics are realized. During the years ended December 31, 2022 and 2021, $556,000 and $1,849,000, respectively, was realized as adjustments to premium revenue for amounts withheld in 2021 and 2020, respectively. These capitated agreements are limited to services provided at SCHS facilities, and therefore, no unpaid claims liability is necessary. Amounts received under capitated agreements are shown in the consolidated statements of operations as premium revenue.

The capitated agreements may also include performance obligations that are earned when the health plan meets certain quality and performance metrics, including budget surpluses. These performance obligations include variable consideration in the form of health plan surplus sharing. During 2022 and 2021, SCHS received $3,361,000 and $1,464,000, respectively, for risk share payments resulting from quality metric and global healthcare budget performance under the OHP contract for the premium years ended December 31, 2021 and 2020, respectively. These amounts are included in other revenue on the consolidated statements of operations.

(6) Property and Equipment

Property and equipment consisted of the following at December 31:

	2022	2021
Land and land improvements	$ 42,017,000	$ 41,972,000
Buildings and fixed equipment	543,042,000	531,744,000
Furniture and movable equipment	312,875,000	307,454,000
	897,934,000	881,170,000
Less accumulated depreciation and amortization	(523,087,000)	(485,447,000)
	374,847,000	395,723,000
Construction in progress	1,121,000	8,322,000
Property and equipment, net	$ 375,968,000	$ 404,045,000

Construction in progress includes costs incurred in connection with various construction projects and costs incurred related to the acquisition and implementation of various software applications. As of December 31, 2022, management estimates that the remaining cost to complete the construction in progress is approximately $3,056,000.

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. In 2022 and 2021, SCHS capitalized $1,751,000 and $1,772,000, respectively, of interest costs.

(7) Net Assets with Donor Restrictions

Net assets with donor restrictions are held by SCF and are those whose use has been limited by donor-imposed restrictions to a specific time period and/or purpose. SCF also holds funds that are not donor restricted for a specific purpose and are distributed to SCHS in amounts and in periods determined by SCF's board of directors, which are included in net assets without donor restrictions. SCF's net assets subject to expenditure for specified purposes are distributed to SCHS or other recipients for the purposes specified by the donors. SCF's net assets restricted for endowment consist of the principal amount of contributions accepted by SCF with the stipulation from donors that the principal be maintained in perpetuity and only the income from investments thereof be expended to support SCF's general activities or restricted purposes, as stipulated by the respective donors.

During 2022 and 2021, net assets were released from donor restrictions by SCHS incurring operating expenses satisfying the restricted purpose of approximately $714,000 and $670,000, respectively, and are included in other revenue. Further, approximately $602,000 and $773,000 were released from restriction to SCHS for capital expenditures made during 2022 and 2021, respectively.

(Continued)

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

	2022	2021
Subject to expenditure for specified purpose:		
Education and research	$ 688,000	$ 718,000
Indigent care	142,000	110,000
Patient care activities	2,639,000	2,680,000
Purchase of property and equipment	426,000	972,000
Other	648,000	524,000
	4,543,000	5,004,000
Donor-restricted endowed funds:		
Education and research	602,000	602,000
Indigent care	639,000	809,000
Other	274,000	274,000
	1,515,000	1,685,000
Total net assets with donor restrictions	$ 6,058,000	$ 6,689,000

SCF has adopted investment and spending policies for endowment assets to provide a predictable stream of funding to programs supported by its endowment and to maintain the value of the endowment assets. Asset allocation is reviewed annually with respect to i) SCF's tolerance for risk based on its financial condition and need for cash from investments to support operations; ii) expected asset class return, risk, and correlation characteristics; and iii) changes in accounting guidance, tax law, or other restrictions.

SCF's spending practices are intended to comply with donors' wishes and meet all applicable laws and regulations. Spending must be for a purpose that is consistent with the documented intent of the donor and may not exceed the amounts annually determined by the SCF's board of directors. Factors that are considered in addressing the annual spending allocation are i) market value of the fund relative to the principal of the gift and ii) the level of spending in prior years.

SCHS follows the guidance in The Uniform Prudent Management of Institutional Funds Act in determining the allowability of expenditures of all donor-restricted endowment funds. In accordance with board policy, assets designated as permanent endowments in accordance with donor intent are only utilized for current period expenditures to the extent that earnings on the endowment exceed the original fair value of the donation. Endowment funds, including unrealized gain (loss), are classified as net assets with donor restrictions.

(8) Leases

SCHS leases medical and administrative office buildings and equipment to support operations. A portion of the leased office space has been subleased to unrelated third parties. SCHS has finance and short term leases with related entities. The operating leases included in property and equipment, net, and accrued liabilities were $5,425,000 and $5,582,000 for the year ended December 31, 2022 and $6,675,000 and $6,861,000 for the year ended December 31, 2021, respectively. The finance leases included in property and equipment, net and accrued liabilities were $9,807,000 and $10,928,000 for the year ended December 31, 2022 and $10,850,000 and $12,057,000 for the year ended December 31, 2021, respectively. The weighted average terms of operating and financing leases were 10 years for both the years ended December 31, 2022 and 2021. The weighted average discount rates on leases were 2.97% and 3.46% for the years ended December 31, 2022 and 2021, respectively.

SCHS incurred lease expenses for the years ended December 31 as follows:

	2022	2021
Finance lease expense included in deprecation and amortization:		
Amortization of right-of-use (ROU) assets	$ 2,555,000	$ 2,855,000
Finance lease expense included in interest:		
Interest on lease liabilities	395,000	471,000
Total finance lease expense	2,950,000	3,326,000
Operating lease expense included in medical supplies, drugs and other	1,758,000	1,504,000
Short term lease expense included in medical supplies, drugs and other	2,770,000	2,798,000
Less sublease rental income	(168,000)	(182,000)
Total lease expense	$ 7,310,000	$ 7,446,000

SCHS' finance and operating lease liabilities will mature as follows:

	Finance leases	Operating leases	Total leases
2023	$ 1,948,000	$ 1,399,000	$ 3,347,000
2024	1,040,000	1,053,000	2,093,000
2025	1,028,000	824,000	1,852,000
2026	1,045,000	802,000	1,847,000
2027	962,000	342,000	1,304,000
Thereafter	7,419,000	1,543,000	8,962,000
	$ 13,442,000	$ 5,963,000	$ 19,405,000

Rental income related to operating leases was $3,386,000 and $3,363,000 for the years ended December 31, 2022 and 2021, respectively. Total minimum sublease rental payments under noncancelable lease agreements were $495,000 and $587,000 for the years ended December 31, 2022 and 2021, respectively.

SCHS anticipates operating lease receipts to mature as follows:

	Operating leases
2023	$ 3,128,000
2024	3,190,000
2025	3,013,000
2026	3,052,000
2027	3,113,000
Thereafter	6,414,000
	$ 21,910,000

(9) Debt Agreements

Long-term obligations consisted of the following at December 31:

	2022	2021
Hospital Facility Authority of Deschutes County, Oregon (The Authority):		
The Authority Hospital Revenue Bonds Series 2022A (the 2022A Bonds)	$ 37,630,000	$ —
The Authority Hospital Revenue Bonds Series 2022B (the 2022B Bonds)	37,630,000	—
The Authority Hospital Revenue Bonds Series 2020A (the 2020A Bonds)	48,605,000	48,605,000
The Authority Hospital Revenue Bonds Series 2020B (the 2020B Bonds)	50,000,000	50,000,000
The Authority Hospital Revenue Bonds Series 2016A (the 2016A Bonds)	94,210,000	95,390,000
The Authority Hospital Revenue Bonds Series 2016B (the 2016B Bonds)	1,070,000	2,140,000
2015 Senior Notes	84,670,000	88,790,000
The Authority Hospital Revenue Bonds Series 2014A (the 2014A Bonds)	—	37,500,000
The Authority Hospital Revenue Bonds Series 2014B (the 2014B Bonds)	—	37,500,000

		2022		2021
Other, SCHS	$	—	$	24,000
First Interstate Secured Promissory Note with CMB		17,578,000		18,316,000
First Interstate Secured Loans with CMI		4,879,000		2,576,000
Other, CMI		307,000		386,000
Unamortized cost of issuance		(1,983,000)		(1,860,000)
Unamortized premium on bonds, net		10,765,000		11,433,000
Total long-term obligations		385,361,000		390,800,000
Less current portion		(4,289,000)		(4,438,000)
Long-term obligations, net of current portion	$	381,072,000	$	386,362,000

In May 2022, the Authority issued the 2022A and 2022B Bonds in the amount of $37,630,000 and $37,630,000, respectively. The proceeds of the 2022 Series bonds were used to advance refund the $75,000,000 2014 Series bonds, which were originally issued to finance certain capital additions and improvements at the Bend and Madras hospitals and build a new hospital in Prineville. Additional proceeds were used to cover the cost of issuance. The 2022 Bonds bear interest at 2.81% payable semiannually each January 1 and July 1 and require annual principal payments each January 1, 2034 through 2035 and January 1, 2039 through 2044 ranging from $1,425,000 to $7,050,000.

In October 2020, The Authority issued the 2020A Bonds in the amount of $48,605,000. The proceeds of the 2020A Bonds will be used to finance capital construction, remodeling, and equipping of facilities used to provide healthcare and administrative space at or near St. Charles Bend and St. Charles Redmond. The 2020A Bonds bear interest at rates ranging from 3.000% to 5.000% payable semiannually each January 1 and July 1 and require annual principal payments each January 1, 2024 through 2051 ranging from $480,000 to $20,820,000.

In October 2020, The Authority issued the 2020B Bonds in the amount of $50,000,000. The proceeds of the 2020B Bonds will be used to finance capital construction, remodeling, and equipping of facilities used to provide healthcare and administrative space at or near St. Charles Bend and St. Charles Redmond. The 2020B Bonds bear interest at 3.985% payable semiannually each January 1 and July 1 and require annual principal payments each January 1, 2041 through 2050 ranging from $1,615,000 to $18,700,000.

In October 2016, The Authority issued the 2016A Bonds in the amount of $101,265,000. The proceeds of the 2016A Bonds were primarily used to advance refund the 2005B Bonds and finance capital construction, remodeling, and equipping of facilities used to provide healthcare at or near St. Charles Bend. The 2016A Bonds bear interest at rates ranging from 3.000% to 5.000% payable semiannually each January 1 and July 1 and require annual principal payments each January 1, with a final payment in 2048 (including mandatory redemptions). The principal payments range from $85,000 to $15,510,000.

In October 2016, The Authority issued the 2016B Bonds in the amount of $7,035,000. The proceeds of the 2016B Bonds were primarily used to finance capital costs of refurbishing a medical office building and equipping the facility to provide healthcare services near St. Charles Bend. The 2016B Bonds bear interest

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at rates ranging from 1.375% to 2.740% payable semiannually each January 1 and July 1 and require annual principal payments each January 1 ranging from $945,000 to $1,070,000 through 2023.

In June 2015, the Corporation issued the 2015 Senior Notes (2015 Notes) in the amount of $111,750,000. The proceeds of the 2015 Notes were used to advance refund the 2008 Bonds, which were legally defeased in 2015. The 2015 Notes bear interest at a fixed rate of 4.420% payable semiannually each January 1 and July 1 and require annual principal payments each January 1 (including mandatory redemptions), with a final payment in 2038. The principal payments range from $1,730,000 to $10,755,000.

In April 2014, The Authority issued the 2014 Bonds in the amount of $75,000,000. In September 2016, the terms of the 2014 Bonds were amended and restated, resulting in the 2014A Bonds in the amount of $37,500,000 and the 2014B Bonds in the amount of $37,500,000. The 2014A Bonds bear interest at a fixed rate of 2.346%. The 2014 bonds were refunded in May 2022.

The above-described debt instruments are secured by gross receivables of SCHS and carry various financial covenants that the Corporation is required to measure on an annual basis.

CMB holds a secured promissory note with First Interstate Bank, which matures on December 23, 2026 and bears interest at a fixed rate of 3.340%.

CMI holds various secured loans with First Interstate Bank, which mature between 2022 and 2027 and a contract payable note with Sectra North America, Inc. which mature between 2023 and 2026.

Unamortized bond premium, cost of issuance and discount, a component of long-term obligations, is amortized to interest expense over the term of the related bonds using the effective-interest method.

Scheduled principal repayments on long-term obligations are as follows:

	Long-term obligations
2023	$ 4,289,000
2024	8,472,000
2025	8,716,000
2026	23,379,000
2027	7,964,000
Thereafter	323,759,000
	$ 376,579,000

As of December 31, 2022 and 2021, SCHS had a $100,000,000 line of credit agreement with JPM. There were no amounts outstanding under this line-of-credit agreement at December 31, 2022 or 2021. Borrowings outstanding under the current line of credit agreement bear interest at LIBOR plus 0.350%.

(10) Commitments and Contingencies

(a) Medical Malpractice Insurance

SCHS maintains a self-insurance program for malpractice and other general liability claims. It contributes actuarially determined amounts to a self-insurance trust (the Trust) established to fund estimated ultimate losses. SCHS purchases excess insurance for claims exceeding a self-insured retention of $1,000,000 each claim, with a $500,000 annual aggregate buffer layer, with a $7,000,000 annual aggregate. Based on an actuarial valuation, the Corporation has recorded estimated liabilities for incurred but not reported (IBNR) medical malpractice claims that, along with liabilities on reported claims, aggregated $10,129,000 and $9,334,000 as of December 31, 2022 and 2021, respectively, and are included in other liabilities in the accompanying consolidated balance sheets. These amounts are inclusive of insurance recoveries of $1,760,000 and $1,665,000 for December 31, 2022 and 2021, respectively. SCHS recorded insurance recoveries as both a receivable and a liability in the balance sheet for both years presented. Management believes that these estimated liabilities are adequate to cover actual ultimate expenses; however, the establishment of estimated liabilities for medical malpractice claims is an inherently uncertain process, and there can be no assurance that currently established liabilities will prove adequate. Subsequent actual experience could result in liabilities being too high or too low, which could positively or negatively impact the Corporation's consolidated results of operations in future periods.

(b) Self-Insurance

SCHS is self-insured for medical, dental, and vision benefits provided to its employees for claims up to $450,000 per employee. SCHS is also self-insured for state unemployment claims. SCHS recognizes self-insurance costs based on claims filed with its third-party administrators and estimates for IBNR claims. Management believes that the amounts accrued in the accompanying consolidated financial statements for the years ended December 31, 2022 and 2021 of $10,816,000 and $8,975,000, respectively, are adequate to cover any related potential losses.

(c) Risk Management

In the ordinary course of business, the Corporation is exposed to various risks of loss from theft of, damage to, and destruction of assets; cyber-attacks; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. However, 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 years ended December 31, 2022 or 2021.

(d) Guaranty

As of December 31, 2022, SCHS is a guarantor of the following loan of a certain related entity:

Entity	Loan balance outstanding at December 31, 2022	SCHS guaranty	Loan expiration date
Heart Center of the Cascades, LLC	$ 6,452,000	$ 3,226,000	April 2025

In the opinion of management, the likelihood that SCHS will be required to make any payments under the guaranty is remote, and the estimated fair value of such guaranty is not significant to the accompanying consolidated financial statements; accordingly, no liability related to this guaranty has been recorded in the accompanying consolidated balance sheets.

(e) Regulations and Litigation

The healthcare industry is subject to various laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has remained high with respect to investigations and allegations concerning possible violations by healthcare providers of regulations, which could result in the expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments of patient services previously billed and collected. Management believes that the Corporation is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations; however, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

In addition, the Corporation becomes involved in litigation and other regulatory investigations arising in the ordinary course of business. After consultation with legal counsel, management believes that these matters will be resolved without causing a material adverse effect on the Corporation’s future consolidated financial position or results of operations.

(f) Collective Bargaining Agreements

Approximately 20% of SCHS employees were covered under collective bargaining agreements that expired in 2022. SCHS is currently in negotiations with parties to the collective bargaining agreements and is working to ratify the contracts in 2023. An additional 3% were covered under contracts expiring in 2023 and 4% were covered under contracts expiring beyond 2023.

(11) Retirement Plan

Substantially all employees of SCHS are eligible to participate in SCHS’ defined-contribution retirement plan (the Plan). Under the Plan, SCHS matches each participant’s contributions up to 6% of his or her salary. Employees are eligible to receive SCHS’ matching contributions once they achieve at least 21 years of age, work 1,000 hours or more during the year, and have been continuously employed by SCHS for one year or more. SCHS’ expense relating to the Plan during the years ended December 31, 2022 and 2021 was $19,555,000 and $18,880,000, respectively, and is included in employee benefits in the accompanying consolidated statements of operations.

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(12) Other Related-Party Transactions

The following is a summary of SCHS' primary unconsolidated related-party investments at December 31:

Entity	Basis of accounting	Ownership as of December 31, 2022	Investment balances included in the accompanying consolidated balance sheets for the years ended December 31 2022	2021	SCHS' share of income (loss) included in the accompanying consolidated statements of operations for the years ended December 31 2022	2021
HCC	Equity method	50 %	$ (1,770,000)	$ (1,930,000)	$ 400,000	$ 229,000
CS	Equity method	50	3,549,000	3,262,000	4,537,000	4,566,000
COMRI	Equity method	33	543,000	886,000	1,166,000	1,642,000
SOLS	Equity method	32	1,364,000	1,455,000	(91,000)	(158,000)
HF	Cost method	33	54,000	54,000	—	—

In addition to SCF, the Trust, CMB, and CMI, SCHS has investments in the following related entities:

(a) Heart Center of the Cascades, LLC

Heart Center of the Cascades, LLC (HCC) is a limited liability company whose members are SCHS (50% ownership interest) and four physicians with equal direct ownership interests (collectively, a 50% ownership interest). Three of the physicians are also employees of the Corporation. HCC was formed to build, own, and manage a medical building on land leased from SCHS. During the years ended December 31, 2022 and 2021, SCHS received member distributions of $240,000 and $208,000 from HCC, respectively. During the years ended December 31, 2022 and 2021, SCHS earned income from HCC of $526,000 and $506,000, respectively, under the land lease and from the provision of certain facility services. During the years ended December 31, 2022 and 2021, SCHS incurred rent expense related to a lease with HCC of $1,723,000 and $1,661,000, respectively.

(b) Cascade Surgicenter, LLC

Cascade Surgicenter, LLC (CS) is a limited liability company whose two members are SCHS (50% ownership interest) and Deschutes Surgicenter, LLC (50% ownership interest). CS was formed to own, operate, and manage an outpatient surgery center located in facilities owned by CMB. SCHS received member distributions of $4,250,000 and $4,462,000 from CS during the years ended December 31, 2022 and 2021, respectively. During the years ended December 31, 2022 and 2021, CS incurred rent expense for facilities owned by CMB of $1,118,000 and $968,000, respectively.

(c) Central Oregon Magnetic Resonance Imaging, LLC

Central Oregon Magnetic Resonance Imaging, LLC (COMRI) is a limited liability company, which is owned by SCHS, CORA, and certain physicians. SCHS owns a one-third interest in COMRI. During the years ended December 31, 2022 and 2021, SCHS received member distributions of $1,512,000 and $1,539,000, respectively, from COMRI. During the years ended December 31, 2022 and 2021, SCHS charged COMRI $654,000 and $572,000, respectively, for certain staffing services, rent, and supplies. In addition, during the years ended December 31, 2022 and 2021, SCHS incurred professional fees expense of $6,910,000 and $6,517,000, respectively, for services rendered by COMRI. Included in accounts payable in the accompanying consolidated balance sheets are amounts due to COMRI for these services of $601,000 and $530,000 as of December 31, 2022 and 2021, respectively.

(d) Southern Oregon Linen Service

Southern Oregon Linen Service (SOLS) is an Oregon cooperative corporation that provides laundry, linen, and uniform services to members of the cooperative. SCHS owns 32% of the outstanding common stock of SOLS, and St. Charles Bend, St. Charles Redmond, St. Charles Madras, and St. Charles Prineville utilize the laundry and linen services provided by this cooperative. SCHS provided member contributions of $604,000 to SOLS during the year ended December 31, 2021. SCHS incurred laundry and linen expense with SOLS of $2,107,000 and $2,096,000 for the years ended December 31, 2022 and 2021, respectively. Included in accounts payable in the accompanying consolidated balance sheets are amounts due to SOLS for these services of $199,000 and $175,000 as of December 31, 2022 and 2021, respectively.

(e) Health Futures

Health Futures (HF) is a limited liability company whose members participate in centralized administrative services in Oregon. SCHS owns approximately 33% of HF. Primarily, SCHS benefits from group purchasing agreements. SCHS receives distributions from time to time that are treated as a reduction to expense and not a return of capital as they are the result of group purchasing agreements.

(f) St. Charles/AmSurg ASC Partners LLC

St. Charles/AmSurg ASC Partners LLC (SCAS) is a limited liability company, created in July 2013, whose two members are SCHS (49% ownership interest) and AmSurg Holdings, Inc. (51% ownership interest). The entity was legally dissolved on December 1, 2022.

(13) Functional Classification of Expenses

SCHS provides healthcare services to residents within its geographic locations. Functional expenses are based on the department they are associated with. Administrative expenses are assigned to the system support category, foundation and auxiliary departments are assigned to the fundraising category, and departments associated with the exempt purposes are assigned to the hospitals, clinics, or home health and hospice portions of the program service category, depending on nature, along with depreciation, amortization and interest. Employee benefits are allocated based on wages. Expenses on a functional basis for the years ended December 31, 2022 and 2021, were as follows:

	Program services			Support services		
	Hospitals	Clinics	Home Health and Hospice	System support	Fundraising	2022 Total
Salaries and wages	$ 350,830,000	$ 86,684,000	$ 8,774,000	$ 87,798,000	$ 872,000	$ 534,958,000
Employee benefits	70,566,000	17,172,000	2,343,000	28,860,000	296,000	119,237,000
Professional fees and assessments	33,996,000	2,406,000	1,416,000	23,720,000	144,000	61,682,000
Depreciation	26,907,000	4,396,000	—	11,605,000	5,000	42,913,000
Interest	64,000	476,000	—	11,754,000	—	12,294,000
Medical supplies, drugs, and other	211,660,000	20,030,000	1,083,000	38,829,000	751,000	272,353,000
Total	$ 694,023,000	$ 131,164,000	$ 13,616,000	$ 202,566,000	$ 2,068,000	$ 1,043,437,000

(Continued)

	Program services			Support services		
	Hospitals	Clinics	Home Health and Hospice	System support	Fundraising	2021 Total
Salaries and wages	$ 317,738,000	$ 78,450,000	$ 9,942,000	$ 79,727,000	$ 1,028,000	$ 486,885,000
Employee benefits	66,563,000	15,134,000	2,624,000	23,689,000	310,000	108,320,000
Professional fees and assessments	36,270,000	4,609,000	1,778,000	27,672,000	40,000	70,369,000
Depreciation	27,819,000	4,601,000	—	13,243,000	9,000	45,672,000
Interest	108,000	472,000	—	12,324,000	—	12,904,000
Medical supplies, drugs, and other	204,171,000	16,805,000	1,356,000	42,276,000	1,076,000	265,684,000
Total	$ 652,669,000	$ 120,071,000	$ 15,700,000	$ 198,931,000	$ 2,463,000	$ 989,834,000

(14) Fair Value Measurements

The Corporation applies the provisions of FASB ASC Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 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 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The 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.

ASC Subtopic 820-10 allows for the use of a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value.

The following table presents assets that are measured at fair value on a recurring basis at December 31, 2022:

	Fair value measurements at reporting date			
	December 31, 2022	**Level 1**	**Level 2**	**Level 3**
Assets:				
Investments:				
Cash equivalents	$ 58,077,000	$ 58,077,000	$ —	$ —
Commingled funds:				
Fixed income	310,985,000	310,985,000	—	—
Diversified	262,538,000	262,538,000	—	—
Mutual and exchange traded funds:				
Equity:				
Domestic	10,262,000	10,262,000	—	—
International	163,000	163,000	—	—
Real estate investment trust sector	10,000	10,000	—	—
Fixed income	992,000	992,000	—	—
Cash surrender value of life insurance	498,000	—	498,000	—
	643,525,000	$ 643,027,000	$ 498,000	$ —
Investment in Oregon Community Foundation	4,220,000			
Total investments	$ 647,745,000			

The following table presents assets that are measured at fair value on a recurring basis at December 31, 2021:

	Fair value measurements at reporting date			
	December 31, 2022	**Level 1**	**Level 2**	**Level 3**
Assets:				
Investments:				
Cash equivalents	$ 58,064,000	$ 58,064,000	$ —	$ —
Commingled funds:				
Fixed income	375,782,000	375,782,000	—	—
Diversified	333,021,000	333,021,000	—	—
Mutual funds and exchange traded funds:				
Equity:				
Domestic	11,387,000	11,387,000	—	—
International	215,000	215,000	—	—
Real estate investment trust sector	32,000	32,000	—	—
Fixed income	1,883,000	1,883,000	—	—
Cash surrender value of life insurance	472,000	—	472,000	—
	780,856,000	$ 780,384,000	$ 472,000	$ —
Investment in Oregon Community Foundation	4,904,000			
Total investments	$ 785,760,000			

(15) COVID-19 and Relief Funding

On March 11, 2020, the World Health Organization announced the novel coronavirus disease (COVID-19) outbreak as a global pandemic. COVID-19 has had numerous and varied medical, economic and social effects, any and all of which have and may again adversely affect the business and financial results of SCHS.

In Oregon, Governor Kate Brown issued an executive order on March 8, 2020, declaring a state of emergency due to the COVID-19 outbreak in the State, which extended through June 30, 2022. Additionally, the Governor has issued and may issue future executive orders to mitigate and address ongoing effects of the COVID-19 pandemic including, without limitation, providing for limitations on travel, business operations and economic reopening, including following a phased approach for reopening Oregon’s economy on a county-by-county basis, with restrictions being re-imposed by order of the Governor if there is a resurgence of COVID-19.

SCHS' patient service volumes, access to labor, and supply chains have been adversely affected by the COVID-19 pandemic. Such events are outside of SCHS' control and are expected to continue to adversely affect its finances and operations throughout the duration of the COVID-19 pandemic, although the ultimate magnitude of such effects are not yet measurable.

In response to COVID-19, and guidance from state and local public health authorities, SCHS 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 of funding to hospitals and other healthcare providers as Provider Relief Funds (PRF). Subsequent federal appropriations bills expanded and extended PRF and other relief programs. Payments from the PRF program were intended to compensate healthcare providers for lost revenues and incremental expenses incurred in responding to the COVID-19 pandemic. PRF will not be required to be repaid, provided recipients attest to and comply with certain terms and conditions, including limits on balance billing COVID-19 patients and not using this funding to reimburse expenses or losses that other sources are obligated to reimburse. SCHS received $7,538,000 and $31,314,000 of PRF during the years ended December 31, 2022 and 2021, respectively, included in other revenue in the consolidated statements of operations. SCHS recognized $18,207,000 of reimbursement from FEMA under the state of emergency during the year ended December 31, 2022, included in other revenue in the consolidated statement of operations.

In response to COVID-19 and subsequent to the CARES Act, CMS expanded the existing Accelerated and Advance Payments Program in order to accelerate cash flow to impacted health care providers. The payments are made for services a healthcare entity will provide to its Medicare patients who are the healthcare entity's customers; therefore they are accounted for as revenue once the services are provided to the patients. In April 2020, SCHS received accelerated and advanced payments of $95,373,000. Such accelerated payments are interest free for inpatient acute care hospitals and ambulatory providers for up to 29 months and bear interest at a 4% rate thereafter. CMS began recouping the payments in April 2021 by withholding Medicare fee-for-service payments for claims. During the year ended December 31, 2022, $60,967,000 of the outstanding accelerated and advanced payments were recouped. The remaining outstanding accelerated and advanced payments of $60,967,000 for the year ended December 31, 2021 were included in Medicare advance payments on the consolidated balance sheets.

The CARES Act also provided for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2022. SCHS began deferring the employer portion of social security taxes in April 2020. As of December 31, 2021 SCHS deferred $7,395,000 in social security taxes which are included in accrued liabilities in the consolidated balance sheet. The balance was paid December 31, 2022.

(16) Subsequent Events

The Corporation has performed an evaluation of subsequent events through April 12, 2023, which is the date these consolidated financial statements were issued.

SUPPLEMENTARY SCHEDULES

Schedule I

ST. CHARLES HEALTH SYSTEM, INC.

Supplementary Schedule – Balance Sheet Information

December 31, 2022 and 2021

		Nonobligated group					
Assets	**Obligated group**	**Cascade Medical Imaging, LLC**	**Cascade Medical Buildings, LLC**	**St. Charles Foundation, Inc.**	**Eliminating and reclassifying entries**	**2022**	**2021**
Current assets:							
Cash and cash equivalents	$ 91,070,000	$ 746,000	$ 269,000	$ 1,366,000	$ —	$ 93,451,000	$ 126,106,000
Investments, current portion	6,238,000	—	—	—	—	6,238,000	6,259,000
Patient accounts receivable, net of allowances	104,137,000	6,716,000	—	—	(4,520,000)	106,333,000	112,512,000
Other receivables, net	25,994,000	—	—	313,000	(356,000)	25,951,000	23,763,000
Supplies inventory	17,070,000	—	—	—	—	17,070,000	17,079,000
Prepaid expenses and other current assets	14,491,000	593,000	17,000	—	—	15,101,000	11,922,000
Total current assets	259,000,000	8,055,000	286,000	1,679,000	(4,876,000)	264,144,000	297,641,000
Investments, net of current portion	630,098,000	—	—	11,409,000	—	641,507,000	779,501,000
Property and equipment, net	316,378,000	13,690,000	45,900,000	—	—	375,968,000	404,045,000
Other assets	61,386,000	9,230,000	24,000	—	(61,803,000)	8,837,000	8,299,000
Total assets	$ 1,266,862,000	$ 30,975,000	$ 46,210,000	$ 13,088,000	$ (66,679,000)	$ 1,290,456,000	$ 1,489,486,000
Liabilities and Net Assets							
Current liabilities:							
Accounts payable	$ 48,708,000	$ 1,784,000	$ —	$ 224,000	$ (4,876,000)	$ 45,840,000	$ 49,559,000
Accrued liabilities	78,999,000	4,969,000	55,000	—	—	84,023,000	77,936,000
Estimated third-party payor settlements, net	4,564,000	—	—	—	—	4,564,000	6,022,000
Deferred revenue	6,329,000	—	—	—	—	6,329,000	5,049,000
Medicare advance payments	—	—	—	—	—	—	60,967,000
Long-term obligations, current portion	2,260,000	1,265,000	764,000	—	—	4,289,000	4,438,000
Total current liabilities	140,860,000	8,018,000	819,000	224,000	(4,876,000)	145,045,000	203,971,000
Long-term obligations, net of current portion	360,338,000	3,921,000	16,813,000	—	—	381,072,000	386,362,000
Other liabilities	21,364,000	—	69,000	95,000	—	21,528,000	22,639,000
Total liabilities	522,562,000	11,939,000	17,701,000	319,000	(4,876,000)	547,645,000	612,972,000
Net assets:							
SCHS:							
Without donor restrictions	738,242,000	38,902,000	28,509,000	3,203,000	(77,140,000)	731,716,000	865,272,000
With donor restrictions	6,058,000	—	—	9,566,000	(9,566,000)	6,058,000	6,689,000
Noncontrolling interest:							
Without donor restrictions	—	(19,866,000)	—	—	24,903,000	5,037,000	4,553,000
Total net assets	744,300,000	19,036,000	28,509,000	12,769,000	(61,803,000)	742,811,000	876,514,000
Total liabilities and net assets	$ 1,266,862,000	$ 30,975,000	$ 46,210,000	$ 13,088,000	$ (66,679,000)	$ 1,290,456,000	$ 1,489,486,000

See accompanying independent auditors’ report.

Schedule II

ST. CHARLES HEALTH SYSTEM, INC.

Supplementary Schedule – Statement of Operations Information

Years ended December 31, 2022 and 2021

	Obligated group	Nonobligated group: Cascade Medical Imaging, LLC	Nonobligated group: Cascade Medical Buildings, LLC	Nonobligated group: St. Charles Foundation, Inc.	Eliminating and reclassifying entries	2022	2021
Operating revenue:							
Patient service revenue	$ 794,729,000	$ 67,814,000	$ —	$ —	$ (48,606,000)	$ 813,937,000	$ 772,202,000
Premium revenue	97,013,000	—	—	—	—	97,013,000	86,462,000
Other revenue	127,456,000	—	—	1,066,000	(31,630,000)	96,892,000	114,759,000
Total operating revenue	1,019,198,000	67,814,000	—	1,066,000	(80,236,000)	1,007,842,000	973,423,000
Expenses:							
Salaries and wages	523,481,000	11,478,000	—	287,000	(288,000)	534,958,000	486,885,000
Employee benefits	119,409,000	—	—	108,000	(280,000)	119,237,000	108,320,000
Professional fees and assessments	110,273,000	—	—	75,000	(48,666,000)	61,682,000	70,369,000
Depreciation	41,082,000	1,831,000	—	—	—	42,913,000	45,672,000
Interest	12,128,000	166,000	—	—	—	12,294,000	12,904,000
Medical supplies, drugs, and other	260,406,000	15,437,000	—	236,000	(3,726,000)	272,353,000	265,684,000
Total expenses	1,066,779,000	28,912,000	—	706,000	(52,960,000)	1,043,437,000	989,834,000
(Deficit) excess of revenue over expenses from operations	(47,581,000)	38,902,000	—	360,000	(27,276,000)	(35,595,000)	(16,411,000)
Other income:							
Investment income (loss), net	(87,167,000)	—	—	(948,000)	(381,000)	(88,496,000)	65,140,000
Other, net	684,000	—	1,418,000	—	—	2,102,000	2,772,000
Total other income (loss), net	(86,483,000)	—	1,418,000	(948,000)	(381,000)	(86,394,000)	67,912,000
Excess (deficit) of revenue over expenses	(134,064,000)	38,902,000	1,418,000	(588,000)	(27,657,000)	(121,989,000)	51,501,000
Increase in interest in net assets of St. Charles Foundation, Inc.	(588,000)	—	—	—	588,000	—	—
Net assets released from donor restriction	602,000	—	—	—	—	602,000	773,000
Other transfers	494,000	—	—	(499,000)	(494,000)	(499,000)	(420,000)
Distributions to noncontrolling interests	—	(37,288,000)	(1,642,000)	—	27,744,000	(11,186,000)	(10,192,000)
Increase (decrease) in net assets without donor restriction	$ (133,556,000)	$ 1,614,000	$ (224,000)	$ (1,087,000)	$ 181,000	$ (133,072,000)	$ 41,662,000

See accompanying independent auditors' report.