



# **TUALITY HEALTHCARE AND SUBSIDIARIES**

Consolidated Financial Statements and Supplementary Information

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

## TUALITY HEALTHCARE AND SUBSIDIARIES

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KPMG LLP  
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## **Independent Auditors' Report**

The Board of Directors  
Tuality Healthcare:

### *Opinion*

We have audited the consolidated financial statements of Tuality Healthcare and its subsidiaries (the Company), which comprise the consolidated balance sheets as of June 30, 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 Company as of June 30, 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 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 available to be issued.

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidating information 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  
October 18, 2022

# TUALITY HEALTHCARE AND SUBSIDIARIES

## Consolidated Balance Sheets

June 30, 2022 and 2021

<b>Assets</b>	<b>2022</b>	<b>2021</b>
Current assets:		
Cash and cash equivalents	\$ 21,847,203	15,812,234
Short-term investments	630,499	623,941
Patient accounts receivable, net	40,487,504	38,936,119
Other receivables	5,646,723	6,549,100
Supplies inventory	4,873,333	4,902,513
Prepaid expenses and other	2,096,483	2,441,725
Estimated receivables for Medicare and Medicaid settlements	454,030	—
Current portion of assets whose use is limited	1,033,408	1,010,068
Total current assets	77,069,183	70,275,700
Assets whose use is limited:		
Board-designated funds	33,040,547	41,246,928
Pending trade receivable	1,909,214	—
Donor-restricted – specific purpose	6,095,571	6,888,186
Donor-restricted – endowment	2,854,961	2,761,346
Required for current liabilities	(1,033,408)	(1,010,068)
Total assets whose use is limited	42,866,885	49,886,392
Property and equipment:		
Property and equipment, net of accumulated depreciation and amortization	62,212,472	62,752,351
Other assets	7,413,502	8,050,847
Total assets	\$ 189,562,042	190,965,290

# TUALITY HEALTHCARE AND SUBSIDIARIES

## Consolidated Balance Sheets

June 30, 2022 and 2021

Liabilities and Net Assets	2022	2021
Current liabilities:		
Accounts payable	\$ 11,417,956	10,341,227
Accrued payroll and employee benefits	14,771,766	13,476,435
Due to related party	24,619,859	6,799,144
Deferred revenue	2,672,006	13,106,758
Estimated liabilities for Medicare and Medicaid settlements	—	423,170
Long-term debt due within one year	1,089,901	1,051,857
Accrued bond interest payable	78,408	85,068
Total current liabilities	<u>54,649,896</u>	<u>45,283,659</u>
Long-term liabilities:		
Long-term debt, net of amount due within one year	9,958,578	11,034,318
Liability for pension benefits	29,679,508	42,224,066
Other long-term liabilities	23,872,819	26,093,296
Total long-term liabilities	<u>63,510,905</u>	<u>79,351,680</u>
Total liabilities	<u>118,160,801</u>	<u>124,635,339</u>
Net assets:		
Net assets without donor restrictions	62,320,184	56,575,736
Net assets with donor restrictions	9,081,057	9,754,215
Total net assets	<u>71,401,241</u>	<u>66,329,951</u>
Total liabilities and net assets	<u>\$ 189,562,042</u>	<u>190,965,290</u>

See accompanying notes to consolidated financial statements.

# TUALITY HEALTHCARE AND SUBSIDIARIES

## Consolidated Statements of Operations

For the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Patient service revenue	\$ 261,997,829	226,775,029
Other revenue:		
OHSU support	11,050,787	746,452
Other revenue	<u>15,689,075</u>	<u>24,738,334</u>
Total other revenue	<u>26,739,862</u>	<u>25,484,786</u>
Total revenue	<u>288,737,691</u>	<u>252,259,815</u>
Operating expenses:		
Salaries and wages	100,417,369	91,704,281
Employee benefits	24,196,241	23,270,526
Supplies and other expenses	112,716,670	93,014,957
Professional fees	43,131,160	31,946,837
Depreciation and amortization	7,456,094	8,291,254
Interest	<u>706,870</u>	<u>718,534</u>
Total operating expenses	<u>288,624,404</u>	<u>248,946,389</u>
Income from operations	<u>113,287</u>	<u>3,313,426</u>
Other non-operating income:		
Realized income on investments whose use is limited by board designation	255,671	221,574
Gain on investments in affiliated companies	610,348	2,303,396
(Loss)/gain on disposal of property and equipment	(71,935)	17,900
Change in net unrealized (losses) gains on investments	<u>(6,624,385)</u>	<u>6,132,923</u>
Total other (loss) income	<u>(5,830,301)</u>	<u>8,675,793</u>
(Deficit)/excess of revenue over expenses	<u>(5,717,014)</u>	<u>11,989,219</u>
Contributions for property and equipment acquisition	24,917	506,427
Pension-related changes	<u>11,436,545</u>	<u>20,815,118</u>
Increase in net assets without donor restrictions	<u>\$ 5,744,448</u>	<u>33,310,764</u>

See accompanying notes to consolidated financial statements.

# **TUALITY HEALTHCARE AND SUBSIDIARIES**

## **Consolidated Statements of Changes in Net Assets**

For the years ended June 30, 2022 and 2021

	<b>2022</b>	<b>2021</b>
Net assets without donor restrictions:		
(Deficit)/excess of revenue over expenses	\$ (5,717,014)	11,989,219
Contributions for property and equipment acquisition	24,917	506,427
Pension-related changes	11,436,545	20,815,118
Increase in net assets without donor restrictions	<u>5,744,448</u>	<u>33,310,764</u>
Net assets with donor restrictions:		
Gifts, grants, and bequests	1,780,519	2,232,518
Investment (loss) income	(1,067,426)	1,792,601
Net assets released from restrictions	(1,386,251)	(1,538,809)
Contributions for endowment funds	<u>—</u>	<u>1,693</u>
(Decrease)/increase in net assets with donor restrictions	<u>(673,158)</u>	<u>2,488,003</u>
Change in net assets	5,071,290	35,798,767
Net assets, beginning of year	<u>66,329,951</u>	<u>30,531,184</u>
Net assets, end of year	<u>\$ 71,401,241</u>	<u>66,329,951</u>

See accompanying notes to consolidated financial statements.



# TUALITY HEALTHCARE AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

For the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,071,290	35,798,767
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,510,769	8,291,254
Net realized and unrealized (gain) loss on investments	7,436,140	(8,147,098)
Gain on investment in affiliated companies	(610,348)	(2,303,396)
(Gain) loss on disposal of property and equipment	71,935	(17,900)
Increase in cash value of life insurance	—	(162,448)
Restricted contributions	(1,780,519)	(2,310,909)
Cash distributed from corporate joint venture	721,300	1,067,929
Changes in assets and liabilities that provided cash:		
Accounts receivable	(649,008)	(12,660,571)
Accounts due to/from related party	17,820,715	22,957,310
Inventories	29,180	(1,060,451)
Prepaid expenses and other	510,742	(217,121)
Accounts payable	(1,143,748)	370,763
Accrued payroll and employee benefits	1,295,331	2,821,056
Long-term pension liability	(12,544,558)	(24,219,730)
Estimated liabilities for Medicare and Medicaid settlements	(877,200)	(26,887)
Deferred revenue	(10,434,752)	(3,483,597)
Accrued bond interest	(6,660)	(6,514)
Net cash provided by operating activities	<u>12,420,609</u>	<u>16,690,457</u>
Cash flows from investing activities:		
Purchase of property and equipment	(6,896,183)	(8,633,093)
Purchases of securities	5,926,303	(13,221,026)
Proceeds from sales of securities	(6,158,583)	13,686,428
Net investment in cash value life insurance	—	(162,448)
Net cash used in investing activities	<u>(7,128,463)</u>	<u>(8,330,139)</u>
Cash flows from financing activities:		
Proceeds from restricted contributions	1,780,519	2,310,909
Principal payments on long-term debt	(1,037,696)	(1,007,407)
Net cash provided by financing activities	<u>742,823</u>	<u>1,303,502</u>
Increase in cash equivalents and restricted cash	6,034,969	9,663,820
Cash, cash equivalents and restricted cash, beginning of year	<u>15,812,234</u>	<u>6,148,414</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 21,847,203</u>	<u>15,812,234</u>
Supplementary disclosures of cash flow information:		
Cash paid during the year for interest	\$ 683,276	695,163
Change in accounts payable related to capital projects	515,512	646,532

See accompanying notes to consolidated financial statements.

## **TUALITY HEALTHCARE AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

June 30, 2022 and 2021

#### **(1) Summary of Organization and Accounting Policies**

Tuality Healthcare and subsidiaries (Tuality), doing business as Hillsboro Medical Center, is a licensed 215-bed hospital and health services provider operating in Washington County, Oregon. Tuality operates Tuality Community Hospital in Hillsboro, Oregon. In addition to acute care hospital services, Tuality provides a wide array of outpatient diagnostic and treatment services throughout western Washington County. Tuality is a component unit of Oregon Health & Science University.

Tuality is the parent company and sole member or stockholder of the following companies:

Tuality Management Systems, Inc. (TMSI), which owns taxable affiliated corporation Tuality Medical Equipment & Supply (TMES) that sells and rents medical durable goods.

Tuality Property Management, Inc., holds hospital-related real estate and property acquired for future hospital expansion or investment.

Tuality Healthcare Foundation, Inc., a foundation established to support Tuality by funding projects and programs that enrich the patient experience and wellness of our community.

The organizations are nonprofit corporations under the laws of the State of Oregon, maintaining tax-exempt status, except for Tuality Management Systems, Inc., which is a for-profit, taxable corporation.

##### **(a) Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Tuality and all majority-owned or controlled subsidiaries (collectively "Tuality"). Subsidiaries in which Tuality has less than a controlling interest are generally accounted for by the equity method, which approximates Tuality's equity in their underlying net book value. All significant intercompany accounts and transactions have been eliminated.

##### **(b) Use of Estimates**

The preparation of consolidated financial statements in conformity with 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.

##### **(c) Subsequent Events**

Management has evaluated subsequent events through October 18, 2022, the date the consolidated financial statements were available to be issued.

##### **(d) Patient Accounts Receivable**

Accounts receivable are stated at unpaid balances, net of explicit and implicit price concessions. Substantially all of Tuality's receivables are related to providing healthcare services to its hospital's patients, except amounts due from OHSU.

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Tuality estimates the allowance for implicit price concessions by reserving a percentage of all self-pay accounts receivable, based on collection history, adjusted for expected recoveries and, if present, anticipated changes in trends. The percentage used to reserve for all self-pay accounts is based on Tuality's recent collection history. Reserves for explicit price concessions on accounts with third-party payors are set taking into consideration contractually expected amounts.

Collections are impacted by the economic ability of patients to pay and the effectiveness of Tuality's collection efforts. Significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage could affect Tuality's collection of accounts receivable and the estimates of the price concessions related to current accounts receivable. The allowance for implicit price concessions is decreased by write-offs (net of recoveries). Accounts receivable are written off after collection efforts have been followed in accordance with Tuality's policies.

**(e) Due to/from Related Party**

As of June 30, 2022 and 2021, respectively, Tuality recorded amounts due to related party of \$24,398,454 and \$6,799,144 for OHSU operating costs reimbursement as well as operating and cash flow support.

**(f) Net Patient Service Revenue**

Net patient service revenue is reported as the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**(g) Cash and Cash Equivalents**

Tuality considers all highly liquid short-term investments with maturities of three months or less, at date of purchase or acquisition, to be cash equivalents, except for cash equivalents included in its investment portfolios.

**(h) Investments and Assets Whose Use is Limited**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments valued utilizing net asset value (NAV) as a practical expedient are excluded from the fair value hierarchy.

Investment income or loss (including realized gains and losses on investments, unrealized gain/loss on trading or equity securities, interest, and dividends) is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. Investment income on investments of donor-restricted funds are added to the appropriate restricted fund balance.

**(i) Supplies Inventory**

Inventories, consisting of supplies, are valued at the lower of cost (first-in, first-out) or net realizable value.

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

#### **(j) Property and Equipment**

Property and equipment are carried at cost. Any purchases of land, buildings, and equipment that have an expected useful life greater than one year and a cost greater than \$5,000 are capitalized.

Refurbishments or improvements that extend the useful life of an existing asset are also capitalized subject to the same cost materiality threshold of \$5,000. Donated assets are carried at fair market value at date of donation. Leased assets under capital leases are carried at the present value of future lease payments. The carrying amounts of assets sold, retired, or otherwise disposed of and the related allowances for depreciation are eliminated from the accounts, and any resulting gain or loss is included in operating income or expense. Depreciation of property and equipment is provided by annual charges to expense on a straight-line basis over the expected useful lives of the assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The range of annual lives used in computing depreciation is as follows:

- Buildings: 10–50 Years
- Fixed Equipment: 15–20 Years
- Movable Equipment: 3–20 Years

#### **(k) Federal and State Income Taxes**

Tuality is a nonprofit corporation and it is management's opinion that substantially none of its activities are subject to unrelated business income taxes. Certain subsidiaries, however, are subject to income taxes, although no significant amounts have been incurred to date.

U.S. generally accepted accounting principles require management of Tuality to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization 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 organization 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. Tuality is subject to routine audits by taxing jurisdictions but no audits are currently in process.

#### **(l) Estimated Malpractice Claims**

Tuality purchases professional and general liability insurance to cover medical malpractice claims on a claims-made basis. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. Tuality accrues an estimate of the ultimate costs for both reported claims and claims incurred but not reported, as well as an estimated receivable for expected insurance reimbursements.

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

#### **(m) Net Assets with Donor Restrictions**

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

	<u>2022</u>	<u>2021</u>
Net assets with donor restrictions:		
Education	\$ 7,390,633	7,911,721
Patient care	<u>1,690,424</u>	<u>1,842,494</u>
	<u>\$ 9,081,057</u>	<u>9,754,215</u>

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

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

#### **(n) Income (Loss) from Operations**

Income (loss) from operations includes income from provision of patient services, as well as other revenue consisting primarily of Oregon Health & Science University (OHSU) support, management fees, rental income, and realized investment income on other than board-designated assets. Income (loss) from operations excludes components of net periodic pension costs other than service cost and certain items that Tuality deems to be outside the scope of its primary business.

#### **(o) (Deficit)/Excess of Revenue over Expenses**

The consolidated statements of operations include (deficit)/excess of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from (deficit)/excess of revenue over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets) and certain pension-related changes.

#### **(p) OHSU Affiliation**

On February 1, 2016, Tuality affiliated with OHSU through the execution of a Management Agreement (the Agreement) between the organizations. Under the Agreement, OHSU agrees to oversee the unified and integrated clinical enterprises of OHSU and Tuality as a single, integrated economic unit. OHSU and Tuality remain as separate entities, own their own assets, and continue to be the licensed

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

operators of their own facilities. Per the Agreement, OHSU has guaranteed operating income and operating cash flow support. Operating income support amounted to \$11,050,787 and \$746,452 and operating cash flow support amounted to \$0 and \$290,638 for the years ended June 30, 2022 and 2021, respectively. Operating cash flow support is a loan with the balance of \$19,590,794 as of both June 30, 2022 and 2021 and is included in other long-term liabilities in the consolidated balance sheets. As of June 30, 2022, there exists on Tuality's financial statements an operating services and operating support payable of \$24,619,859 and \$6,799,144 for June 30, 2022 and 2021, respectively.

As a related party, Tuality utilized \$56,026,157 and \$43,637,811 of services during the years ended June 30, 2022 and 2021, respectively, from OHSU, primarily related to providers and their support components, including specialty services that were not available to the community in the past, IT services and access to technology, and revenue cycle services including electronic medical records. These expenses primarily consist of professional fees and purchased services.

#### **(g) New Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. The ASU applies to all leases of tangible assets and the new standard is effective for Tuality on July 1, 2022. Management is evaluating the effect that ASU No. 2016-02 will have on its consolidated financial statements and related disclosures. Management has selected software to assist with this transition and Tuality is prepared to implement the new standard beginning on July 1, 2022.

#### **(2) COVID-19**

The CARES Act, which was enacted on March 27, 2020, authorized \$100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the "PHSSEF"). Payments from the PHSSEF 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 PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. In fiscal year 2021, Tuality received \$11,889,793 in payments from the PHSSEF distribution and recognized \$13,837,254 as revenue, of which \$1,947,461 was related to payments received in the previous year. In fiscal year 2022, Tuality received \$2,384,777 in payments from the PHSSEF distribution and recognized \$2,384,777 as revenue under the caption of other revenue in the consolidated statement of operations.

As a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic, the CARES Act expanded the Medicare Accelerated and Advance Payment Program. Inpatient acute care hospitals were able to request accelerated payments of up to 100% of the Medicare payment amount for a six month period (not including Medicare Advantage payments). CMS based payment amounts for inpatient acute care hospitals on the provider's Medicare fee-for-service reimbursements in the last six months of 2019. Such accelerated payments are interest free for inpatient acute care hospitals for 29 months, and the program currently requires CMS to recoup the payments beginning 12 months after receipt by the provider, by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped. The program currently requires any outstanding balance remaining after 29 months to be repaid by the provider or be subject to an interest rate currently set at 4.0%. In April 2020, the Health System received \$14,645,895 of accelerated payments, which was recorded in the consolidated balance

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

sheet as of June 30, 2020 as deferred revenue. This balance was reduced to \$13,106,758 as of June 30, 2021 through payments totaling \$1,536,135 throughout fiscal year 2021. As of June 30, 2022, an additional amount of \$10,434,752 has been recouped through payment withholdings leaving an outstanding balance of \$2,672,006.

The CARES act also allowed employers to defer the employer portion of FICA taxes which Tuality opted to do from March 27, 2020 through December 31, 2020, with 50% being due December 31, 2021 and 50% due by December 31, 2022. As of June 30, 2021, Tuality had a deferred a total of \$3,466,515 in payroll taxes. 50% of the balance was paid on December 31, 2021, leaving a balance of \$1,732,340 in outstanding deferred payroll taxes as of June 30, 2022.

Tuality continues to assess the potential impact of future stimulus measures, if any, and the impact of other laws, regulations, and guidance related to COVID-19 on our business, results of operations, financial condition and cash flows.

### (3) Investments and Assets Whose Use is Limited

#### (a) Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates consisted of the following at June 30, 2022 and 2021:

June 30, 2022				
	<u>Cost or equity</u>	<u>Percentage of ownership</u>	<u>Investments</u>	<u>Income/(loss)</u>
Raines Dialysis Center	Equity	20 %	\$ 537,434	352,893
Mountain States				
Healthcare	Cost	5	310,181	—
Noble Woods	Equity	22	140,809	257,455
West Coast Sourcing	Cost	1	5,000	—
			\$ 993,424	610,348

June 30, 2021				
	<u>Cost or equity</u>	<u>Percentage of ownership</u>	<u>Investments</u>	<u>Income/(loss)</u>
Raines Dialysis Center	Equity	20 %	\$ 636,341	220,235
Mountain States				
Healthcare	Cost	5	310,181	—
Noble Woods	Equity	22	152,854	179,085
West Coast Sourcing	Cost	1	5,000	—
Tuality Health Alliance	Cost	33.3	—	1,904,076
			\$ 1,104,376	2,303,396

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

*(i) Tuality Health Alliance*

Tuality was the sole corporate member of Tuality Health Alliance (THA), an Oregon taxable, not-for-profit corporation organized to create an association of hospitals and physicians dedicated to the delivery of comprehensive, affordable and quality integrated healthcare services to the communities they serve. As of December 31, 2019, THA was no longer contracted to provide new services to the patient population it once served with patient care transitioning to the OHSU Health IDS.

Tuality charged THA management fees of \$0 and \$47,598 for the years ending June 30, 2022 and 2021, respectively. Management fees receivable were \$0 at both June 30, 2022 and 2021.

Existing funds within THA were dispositioned appropriately, with full dissolution of THA completed on December 31, 2021.

**(b) Investment Income**

Investment income on board-designated funds including unrealized gains and losses, is included in other non-operating activities.

Investments made by the Tuality Healthcare Foundation shall be managed in accordance with the laws of the State of Oregon, and in ways that maximize overall return on investment with minimal risk to the investment, while promoting stability, flexibility, diversification, and liquidity. The Foundation is the recipient of many donor-restricted gifts, the expenditure of which occurs over time for a variety of charitable purposes. These funds, in addition to miscellaneous unrestricted funds, shall not be pooled with the endowed funds for investment purposes, as the investment objectives for these funds differ from the long-term objective of the endowed funds. These funds will be individually accounted for and will accrue pro rata investment income until the principal amounts are distributed for their specific purposes. Non-endowed funds shall be invested in a combination of bonds and cash, with the goal of exposing the funds to very low risk. For non-endowed funds, any bonds held will be subject to limited maturity (three years). It is the Foundation's intention to hold these bonds as trading securities.

The Foundation will spend up to 6% of a three-year moving average of the total fair value of the endowment assets annually to support community education programs and specific scholarships as designated by the various endowments. For purposes of determining the amount available to spend, the average will be calculated from the fair value of the endowments on June 30 of each year.



## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Changes in endowment net assets for the years ended June 30, 2022 and 2021 are as follows:

	<b>Net assets with donor restrictions</b>
Balance as of June 30, 2020	\$ 4,704,224
Investment gain	945,760
Contributions	1,693
Appropriated for expenditure	<u>(251,951)</u>
Balance as of June 30, 2021	5,399,726
Investment loss	(396,614)
Contributions	105
Appropriated for expenditure	<u>(284,434)</u>
Balance as of June 30, 2022	<u>\$ 4,718,783</u>

#### (4) Liquidity and Availability

As of June 30, 2022, Tuality Healthcare has working capital of \$22,419,287. As of June 30, 2021, Tuality Healthcare has working capital of \$24,992,041.

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

	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 21,847,203	15,812,234
Short term investments	630,499	623,941
Patient accounts receivable, net	40,487,504	38,936,119
Other receivables	5,646,723	6,549,100
Board designated funds	33,040,547	41,245,989
Pending trade receivable	<u>1,909,214</u>	<u>—</u>
	<u>\$ 103,561,690</u>	<u>103,167,383</u>

Certain board-designated and donor-restricted assets limited to use are available for general expenditure within one year in the normal course of operations. Other assets limited to use are for donor-restricted purposes and debt service. Additionally, certain board-designated assets are designated for future purposes beyond the next year. However, the board-designated amounts may be made available, if necessary.

As part of Tuality's liquidity management plan, cash in excess of daily requirements are invested in short term investments and money market funds.

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

#### (5) Fair Value Measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income, or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities Tuality has the ability to access.
- 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.

Fair values of assets measured on a recurring basis at June 30, 2022 are as follows:

Fair value measurements at reporting date using				
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Short term investments:				
Cash equivalents	\$ 18,914	18,914	—	—
Equity securities	315,250	315,250	—	—
Fixed income securities	296,335	—	296,335	—
Assets whose use is limited board designated funds:				
Cash equivalents	817,837	817,837	—	—
Equity securities	10,411,132	10,411,132	—	—
Fixed income mutual funds	17,300,538	17,300,538	—	—

# TUALITY HEALTHCARE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Fair value measurements at reporting date using				
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Donor restricted:				
Cash equivalents	\$ 268,516	268,516	—	—
Equity securities	4,475,266	4,475,266	—	—
Fixed income securities	4,206,750	—	4,206,750	—
Deferred compensation plan:				
Cash equivalents	702,107	702,107	—	—
Equity securities	1,103,311	1,103,311	—	—
Fixed income securities	702,107	702,107	—	—
	40,618,063	\$ 36,084,246	4,503,085	—
Investments valued at NAV as a practical expedient	4,511,040			
Total	\$ 45,129,103			

Fair values of assets measured on a recurring basis at June 30, 2021 are as follows:

Fair value measurements at reporting date using				
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Short term investments:				
Cash equivalents	\$ 9,359	9,359	—	—
Equity securities	407,434	407,434	—	—
Fixed income securities	207,148	—	207,148	—
Assets whose use is limited board designated funds:				
Cash equivalents	889,924	889,924	—	—
Equity securities	15,617,988	15,617,988	—	—
Fixed income mutual funds	18,421,794	18,421,794	—	—
Under bond indenture:				
Cash equivalents	939	939	—	—

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Fair value			
Donor restricted:				
Cash equivalents	\$ 149,445	149,445	—	—
Equity securities	6,298,590	6,298,590	—	—
Fixed income securities	3,201,497	—	3,201,497	—
Deferred compensation plan:				
Cash equivalents	551,494	551,494	—	—
Equity securities	1,215,537	1,215,537	—	—
Fixed income securities	1,046,712	1,046,712	—	—
	48,017,861	\$ 44,609,216	3,408,645	—
Investments valued at NAV as a practical expedient	6,316,283			
Total	\$ 54,334,144			

Investments valued using the NAV per share (or its equivalent) as a practical expedient are considered “alternative investments” and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. Tuality values these investments based on the partnerships’ June 30 financial statements. The following table presents the investments valued at NAV per share, redemption frequency (if currently eligible), as the redemption notice period, and excluded from the fair value hierarchy tables above:

		June 30		Redemption frequency	Redemption notice period
		2022	2021		
Limited partnerships	\$	4,511,040	6,316,283	Monthly to annual	45–185 days

### (6) Community Benefits

Tuality’s mission is to provide quality healthcare services and leadership in promoting health improvement to all persons in its service area on a nondiscriminatory basis and without regard to ability to pay. Tuality recognizes that not all individuals possess the ability to purchase essential medical services and that its mission includes serving the community with respect to providing healthcare service and healthcare education. In keeping with its commitment to serve all members of its community, the following are considered in the context of the individual’s ability to pay and/or community need:

- Free and/or subsidized care

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

- Care provided to persons covered by governmental programs at below cost
- Health activities and programs to support the community

These activities include wellness programs, community education programs, health screenings, and special programs for the elderly, handicapped, and medically underserved, and a wide variety of broad community support activities.

Through its hospitals, Tuality provides care to patients covered by governmental programs, such as Medicare and Medicaid, which reimburse at levels below the actual cost to provide this care. The amount of unpaid cost due to inadequate reimbursement under these programs was approximately \$56,804,305 and \$46,080,340 during the years ended June 30, 2022 and 2021, respectively. Tuality also provides additional free or discounted care under its charity care policy. The cost of care provided under Tuality's charity policy was estimated to be \$6,131,424 and \$5,765,404 during the years ended June 30, 2022 and 2021, respectively. The cost of charity care provided is based on Tuality's estimated relationship of cost to charges.

#### (7) Net Patient Service Revenue and Patient Receivables

Management evaluates revenue by nature in the following categories for the year ended June 30, 2022:

	<u>2022</u>	<u>2021</u>
Revenue by payor:		
Medicare	\$ 112,605,688	77,942,000
Medicaid	41,635,433	44,364,231
Commercial and Managed Care	102,979,645	103,595,060
Other	4,777,063	873,738
	<u>\$ 261,997,829</u>	<u>226,775,029</u>
Revenue by major line of business:		
Inpatient revenue, net	\$ 109,189,252	86,260,537
Outpatient revenue, net	152,808,577	140,514,492
CARES revenue	2,384,777	13,837,254
OHSU support	11,050,787	746,452
Other revenue	13,304,298	10,901,080
	<u>\$ 288,737,691</u>	<u>252,259,815</u>

Tuality has agreements with third-party payors that provide for payments to Tuality at amounts different from their established rates. A summary of the payment arrangements with major third-party payors follows.

#### (a) Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and defined capital costs related to beneficiaries are paid based on a cost reimbursement methodology. Tuality is

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Tuality and audits thereof by the Medicare fiscal intermediary. Tuality's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with Tuality. Tuality's Medicare cost reports have received final settlement notification by the Medicare fiscal intermediary through June 30, 2018.

#### **(b) Medicaid**

Inpatient and outpatient services rendered to the Medicaid program beneficiaries are paid based on prospective payment rates with final settlement determined after submission of annual cost reports by Tuality and audits thereof by the Department of Medical Assistance Programs (DMAP).

Tuality's Medicaid cost reports have been reviewed by DMAP through June 30, 2017.

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

There were no material effects on net patient service revenues for the years ended June 30, 2022 and 2021 due to changes in prior year estimated Medicare and Medicaid settlements.

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

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

### **(8) Property and Equipment**

A summary of property and equipment at June 30, 2022 and 2021 follows:

	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 8,044,601	8,090,009
Building and fixed equipment	114,345,081	115,655,590
Moveable equipment	74,352,702	98,246,115
Equipment under capital leases	<u>7,117,040</u>	<u>9,666,668</u>
	203,859,424	231,658,382
Less accumulated depreciation and amortization	<u>(151,698,539)</u>	<u>(180,427,977)</u>
	52,160,885	51,230,405
Construction in progress	<u>10,051,587</u>	<u>11,521,946</u>
Property and equipment, net	<u>\$ 62,212,472</u>	<u>62,752,351</u>

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

#### (9) Intangible Assets

During the year ended September 30, 2009, Tuality exchanged a parcel of land for parking rights in that same location for a period of 50 years. The value of the license of \$1,928,629 is based on the estimated fair value of the transferred land plus cash that was paid as part of the transaction. A gain of \$1,724,200 was recognized on the transaction. Tuality began amortizing the license over the 50-year period once the parking spaces became available in August 2010. The net amount is included in other assets on the consolidated balance sheet.

Intangibles and accumulated amortization at June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Parking license	\$ 1,928,629	1,928,629
Noncompete covenant and other	<u>380,500</u>	<u>380,500</u>
	2,309,129	2,309,129
Less accumulated amortization	<u>(813,645)</u>	<u>(758,970)</u>
	<u>\$ 1,495,484</u>	<u>1,550,159</u>

Amortization expense related to intangible assets was \$54,675 for the years ended June 30, 2022 and 2021.

Estimated aggregate amortization expense for the next five fiscal years is as follows:

2023	\$ 54,675
2024	46,649
2025	38,625
2026	38,625
2027	38,625

#### (10) Long-Term Debt

Hospital Revenue Refunding Bond, Series 2015, amounting to \$16,125,000, was issued by the Hospital Facility Authority of Hillsboro, Oregon (The Authority) to fund an irrevocable trust to defease scheduled principal and interest payments on the Hospital Revenue Bonds, Series 2001. It also provided additional funding for capital purchases.

Under the terms of the loan agreements created pursuant to these issuances, Tuality Obligated Group (The Obligated Group), which only includes the Tuality Healthcare legal entities, agreed to provide funds sufficient to pay the principal and interest on the bonds as they become due and to pay any expenses of the Trustee. The Obligated Group recorded liabilities in the amount of the bonds payable to reflect these agreements. In order to secure the bonds, the Obligated Group granted security interests in the gross revenue from operations, equipment owned or leased located in Tuality facilities, and on Tuality's real property.

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Under the Original Master Indenture, as amended, Tuality agreed to a number of covenants and conditions, which management believes have been met as of June 30, 2022. Subsequent to year end, the covenant specific to days cash on hand was no longer met. Management is following guidance within the Original Master Indenture to address this change.

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

	<u>2022</u>	<u>2021</u>
2015 series bonds, variable annual payments, including principal and interest at a rate of 2.88% from \$1,262,700 to \$1,270,600, beginning October 2016 to October 2031	\$ 10,745,415	11,655,613
Present value of net minimum capital lease obligations	<u>303,064</u>	<u>430,562</u>
Total debt	11,048,479	12,086,175
Less amounts due within one year	<u>(1,089,901)</u>	<u>(1,051,857)</u>
Long term debt, due after one year	<u>\$ 9,958,578</u>	<u>11,034,318</u>

Long-term debt maturing in the next five years consists of:

	<u>Long term debt</u>	<u>Capital leases</u>	<u>Total</u>
Fiscal years ending:			
2023	\$ 955,000	134,901	1,089,901
2024	980,000	143,452	1,123,452
2025	1,010,000	24,711	1,034,711
2026	1,040,000	—	1,040,000
2027	1,070,000	—	1,070,000
Thereafter	<u>5,690,415</u>	<u>—</u>	<u>5,690,415</u>
	<u>\$ 10,745,415</u>	<u>303,064</u>	<u>11,048,479</u>

### (11) Long-Term Leases

All non-cancelable leases have been categorized as capital or operating leases. Tuality leases equipment and buildings under non-cancelable operating leases, which expire at various dates between June 2023 and 2032.



## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Minimum future obligations on leases in effect at June 30, 2022 are:

	<u>Capital leases</u>	<u>Operating leases</u>
Fiscal years ending:		
2023	\$ 149,316	3,977,238
2024	149,316	1,291,884
2025	12,443	989,842
2026	—	765,182
2027	—	788,137
Thereafter	—	2,500,158
Total minimum lease payments	311,075	\$ <u>10,312,441</u>
Less amounts representing interest	<u>8,011</u>	
Present value of net minimum lease payments	\$ <u>303,064</u>	

Rental expense under non-cancelable operating leases with initial terms of one year or greater was \$4,561,952 and \$3,947,487 for the years ended June 30, 2022 and 2021, respectively.

### (12) Retirement Plans

Tuality has two defined-benefit pension plans covering its employees. Tuality makes contributions to the plan in amounts sufficient to fund the plan's current service cost and the actuarially computed past service costs over a period of 10 years. In August of 2012, the board of directors approved an amendment to freeze the defined-benefit pension plan effective August 31, 2012. In conjunction with the freeze, the plan is now closed to new entrants and compensation no longer accrues. Current participants who are not yet vested will continue to accrue accumulated years of service for hours worked to become vested if they continue working for Tuality.

Effective September 1, 2012, Tuality established a cash balance retirement plan that covers substantially all of its employees. The plan benefits were based on compensation and years of service. Tuality made annual contributions and interest credits to each employee's account. In February of 2021, the board of directors approved an amendment to freeze this plan effective March 1, 2021. Although interest will still be credited, this ended all future service contributions.

The defined-benefit pension plan and the cash balance retirement plan are collectively "the defined-benefit plans."

Tuality also has a 457(b) salary deferral plan for key executives. Tuality reports assets and liabilities of equal amounts attributable to the amount deferred and the related investment earnings. Tuality's invested assets of deferred compensation consist of mutual funds and fixed income. The balance in the deferred compensation plan at June 30, 2022 and 2021 was \$2,507,525 and \$2,813,743, respectively, and is included in other long-term liabilities in the accompanying consolidated balance sheets.

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The following table sets forth the funded status of the defined-benefit plans and amounts recognized in Tuality's consolidated balance sheets as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Change in benefit obligation:		
Projected benefit obligation at July 1	\$ 144,927,929	149,786,977
Service cost	1,840,047	3,070,593
Interest cost	3,909,168	3,945,726
Actuarial (gain)/loss	(28,755,231)	(3,958,932)
Expenses paid	(1,666,380)	(1,757,385)
Benefits paid	<u>(6,081,827)</u>	<u>(6,159,050)</u>
Projected benefit obligation at June 30	<u>114,173,706</u>	<u>144,927,929</u>
Change in plan assets:		
Fair value of assets at July 1	102,703,863	83,343,131
Actual return on plan assets	(12,309,458)	20,686,890
Employer contribution	1,848,000	6,590,277
Expenses paid	(1,666,380)	(1,757,385)
Benefits paid	<u>(6,081,827)</u>	<u>(6,159,050)</u>
Fair value of assets at June 30	<u>84,494,198</u>	<u>102,703,863</u>
Funded status	<u>\$ (29,679,508)</u>	<u>(42,224,066)</u>

Amounts recognized in the consolidated balance sheets and the statement of changes in net assets as of and for the years ended June 30, 2022 and 2021 consist of:

	<u>2022</u>	<u>2021</u>
Liability for pension benefits	\$ 29,679,508	42,224,066
Pension-related changes	11,436,545	20,815,118
Net periodic pension cost	738,987	2,578,647

Amounts recognized as changes in net assets without donor restrictions but not yet included in net periodic pension cost as of June 30, 2022 and 2021 consist of:

	<u>2022</u>	<u>2021</u>
Net loss	\$ 53,455,566	65,989,958
Prior service cost	<u>(274,713)</u>	<u>(1,373,560)</u>
Total	<u>\$ 53,180,853</u>	<u>64,616,398</u>

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The accumulated benefit obligation for the defined-benefit plans was \$114,173,706 and \$144,927,929 at June 30, 2022 and 2021, respectively.

	<b>Year ended June 30</b>	
	<b>2022</b>	<b>2021</b>
Components of net periodic benefit cost:		
Service cost	\$ 1,840,047	3,070,593
Interest cost	3,909,168	3,945,726
Expected return on plan assets	(6,159,268)	(6,025,664)
Amortization of prior service cost	(1,098,847)	(1,098,847)
Amortization of net actuarial gain	2,247,887	2,686,839
Net periodic pension cost	<u>\$ 738,987</u>	<u>2,578,647</u>

The estimated net loss and prior service cost that will be amortized from changes in net assets without donor restrictions into net periodic pension cost over the next fiscal year are \$1,312,330 and \$2,247,887, respectively.

#### **(a) Assumptions**

	<b>June 30</b>	
	<b>2022</b>	<b>2021</b>
Weighted average assumptions used to determine benefit obligations at June 30:		
Discount rate	4.61 %	2.76 %
Weighted average assumptions used to determine net periodic benefit cost for period ended:		
Discount rate	2.76 %	2.69 %
Expected long-term return on plan assets	6.40	6.75

The discount rate is determined using a published yield curve applied to expected timing of future benefit payments. The expected long-term rate of return on plan assets reflected the weighted average expected return for the broad categories of investments currently held in the defined-benefit plans (adjusted for expected changes), based on historical rates of return for each broad category, as well as factors that may constrain or enhance returns in the broad categories in the future.

#### **(b) Plan Assets**

Tuality's investment policy is to manage the defined-benefit plans with long-term (five years and more) objectives, with little concern for high current income or the need to maintain ready-cash reserves other than as required for current participant distributions, and with the intent to achieve the highest practicable long-term rate of return without taking excessive risk that could jeopardize the funding policy or cause undue funding volatility. In consideration of this policy, the defined-benefit plans will

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

invest in a variety of asset classes (including short term money-market securities, large-company common stocks, smaller-company common stocks, international common stocks and fixed income securities) and will diversify sufficiently within each asset class or may invest in index funds to minimize the risk of large losses.

Target allocation percentages for each major category of plan assets are as follows:

	<b>Cash balance</b>	<b>Defined benefit</b>
Non-traded alternative	2 %	2 %
Cash	8	11
Equity	47	52
Fixed	20	20
Hedged	23	15
Total	<u>100 %</u>	<u>100 %</u>

#### **(c) Cash Flows**

Tuality expects to contribute \$2,716,000 to its pension plans in fiscal year 2023.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal year ending June 30:	
2023	\$ 6,745,067
2024	6,469,443
2025	6,600,504
2026	6,635,248
2027	6,907,616
Following five years	35,643,653

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

The following table presents Tuality's pension plan assets measured at fair value at June 30, 2022:

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Fair value			
Interest bearing cash	\$ 3,003,879	3,003,879	—	—
Corporate bonds and debentures	19,156,965	—	19,156,965	—
Registered investment companies:				
Fixed income	10,863,993	10,863,993	—	—
Large cap	32,943,782	32,943,782	—	—
Mid cap	2,232,926	2,232,926	—	—
Small cap	8,002,308	8,002,308	—	—
	76,203,853	\$ 57,046,888	19,156,965	—
Investments valued at NAV as a practical expedient	8,290,345			
Total	\$ 84,494,198			

The following table presents Tuality's pension plan assets measured at fair value at June 30, 2021:

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Fair value			
Interest bearing cash	\$ 513,221	513,221	—	—
Corporate bonds and debentures	491,029	—	491,029	—
Registered investment companies:				
Fixed income	34,731,433	34,731,433	—	—
Large cap	45,936,834	45,936,834	—	—
Mid cap	2,890,110	2,890,110	—	—
Small cap	7,981,741	7,981,741	—	—
	92,544,368	\$ 92,053,339	491,029	—
Investments valued at NAV as a practical expedient	10,159,495			
Total	\$ 102,703,863			

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Investments valued using the NAV per share (or its equivalent) are considered “alternative investments” and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. Tuality values these investments based on the partnerships’ June 30 financial statements. The following table presents the investments valued at NAV per share, redemption frequency (if currently eligible), and the redemption notice period, and excluded from the fair value hierarchy tables above:

		June 30		Redemption frequency	Redemption notice period
		2022	2021		
Alternative investments	\$	8,920,345	10,159,495	Quarterly	30–90 Days

#### **(d) Healthcare Performance Retirement Plan**

In addition, during 1994, Tuality established the Tuality Healthcare Performance Retirement Plan under which eligible employees may defer a portion of their annual compensation pursuant to Sections 403(b) and 401(k) of the Internal Revenue Code. Tuality matches a portion of employee contributions on a discretionary basis. Tuality made contributions of \$2,128,114 and \$1,621,454 for the years ended June 30, 2022 and 2021, respectively.

#### **(13) Functional Expenses**

Tuality provides general healthcare services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended June 30, 2022 and 2021:

		Year ended June 30, 2022			
		Tuality program service	Tuality management and general	Affiliated entities	Total
Salaries and wages	\$	98,079,563	2,337,806	—	100,417,369
Employee benefits		23,621,120	576,776	(1,655)	24,196,241
Supplies and other expense		108,322,759	1,660,661	2,733,250	112,716,670
Professional fees		43,055,160	76,000	—	43,131,160
Depreciation and amortization		7,217,748	—	238,346	7,456,094
Interest		706,870	—	—	706,870
Total	\$	281,003,220	4,651,243	2,969,941	288,624,404

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Year ended June 30, 2021				
	Tuality program service	Tuality management and general	Affiliated entities	Total
Salaries and wages	\$ 90,119,619	1,585,215	(553)	91,704,281
Employee benefits	22,831,849	435,934	2,743	23,270,526
Supplies and other expense	89,780,415	747,497	2,487,045	93,014,957
Professional fees	31,904,837	42,000	—	31,946,837
Depreciation and amortization	7,156,490	874,168	260,596	8,291,254
Interest	718,534	—	—	718,534
Total	\$ 242,511,744	3,684,814	2,749,831	248,946,389

The financial statements report certain expense categories that are attributable to more than one healthcare service or management and support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, and other occupancy costs, are allocated to a functional region based on a square-footage or units-of-service basis. In some instances, costs are allocated according to reasonable estimates of general overhead.

#### (14) Concentrations of Credit Risk

Financial instruments, which potentially subject Tuality to concentrations of credit risk consist of the following:

##### (a) Cash

Tuality maintains its cash balances at several financial institutions located in Washington County, Oregon. As of June 30, 2022, accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2022, Tuality's uninsured cash balances totaled \$4,529,328.

##### (b) Patient Receivables

The mix of net patient receivables was as follows at June 30, 2022 and 2021:

	2022	2021
Medicare and Medicare Managed Care	44 %	40 %
Medicaid and Medicaid Managed Care	11	15
Managed Care Plans	42	39
Other	3	6
	100 %	100 %

## TUALITY HEALTHCARE AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2022 and 2021

#### (15) Commitments and Contingencies

During the normal course of its operations, Tuality becomes involved in litigation and regulatory investigations.

Tuality has different insurance arrangements with Mountain States Healthcare Reciprocal Retention Group (MSH) along with other member hospitals. All claims under the MSH policy are subject to a \$25,000 deductible indemnity payment per claim. The limits provided in the primary policy issued by MSH shall be \$1,000,000 per claim and \$3,000,000 annual aggregate for general and hospital professional liability, and \$1,000,000 per claim and \$3,000,000 or \$2,000,000 per claim and \$5,000,000 annual aggregate for physician professional liability. An excess/umbrella insurance program exists for general and hospital professional liability and provides limits in four separate layers and is reinsured by CNA (first excess layer), Zurich (next two excess layers), and Chartis (last excess layer) insurance companies. Each layer provides limits of \$5,000,000 per claim and \$5,000,000 annual aggregate per hospital and \$15,000,000 annual aggregate for all hospitals participating in that layer. Total limits for the hospitals that participate in all four layers are \$20,000,000 per claim, \$20,000,000 annual aggregate per hospital, and \$60,000,000 annual aggregate for all hospitals combined. After January 1, 2011, all four excess layers apply. The insurance is on a claims-made basis.

Effective January 1, 2018 Tuality entered into an insurance program with UMIA. All professional liability and general liability claims under the policy are subject to a \$25,000 deductible indemnity payment per claim. All personal property claims are subject to a \$250 deductible. All Employee Benefits Administration Liability Claims are subject to a \$1,000 deductible. This policy is on a claims-made basis. For stop loss, the claims that Tuality pays (after out of pocket share) are capped per person at \$215,000. Any claims paid after \$215,000 during the year is reimbursed by the stop loss carrier. There is no maximum on the reimbursements.

General and professional liability costs, as well as related expected insurance recoveries, have been accrued based on actuarial determination. The amount accrued, including the tail liability, at June 30, 2022 and 2021 for general and professional liability risks was \$1,744,500 and \$1,902,500, respectively, and is recorded in long-term liabilities. The related insurance receivable at June 30, 2022 and 2021 was \$1,141,000 and \$1,306,500, respectively and recorded in other receivables-non current.

Tuality has an employee medical benefit plan to self-insure claims. This self-insured medical benefit plan operates on a calendar year basis and is administered by a third-party administrator. Tuality has entered into a stop-loss insurance arrangement in an effort to limit its exposure. Tuality and its covered employee dependents contribute to the fund to pay medical claims and reinsurance premiums. At June 30, 2022 and 2021, management has made provisions which it believes to be sufficient to cover estimated claims, including claims incurred but not yet reported. The total of this expected liability, inclusive of deductibles, is \$1,650,373 as of June 30, 2022, and \$1,590,037 as of June 30, 2021.



## **SUPPLEMENTARY INFORMATION**

**TUALITY HEALTHCARE AND SUBSIDIARIES**  
Consolidating Schedule of Balance Sheet Information  
June 30, 2022 and 2021

Assets	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated	
							June 30, 2022	June 30, 2021
Current assets:								
Cash and cash equivalents	\$ 20,410,737	21,296	14,598	1,400,572	21,847,203	—	21,847,203	15,812,234
Short-term investments	—	—	—	630,499	630,499	—	630,499	623,941
Patient accounts receivable	40,028,146	459,358	—	—	40,487,504	—	40,487,504	38,936,119
Allowance for uncollectible accounts	—	—	—	—	—	—	—	—
Other receivables	5,583,561	—	13,500	49,661	5,646,722	—	5,646,722	6,549,100
Inventory of supplies	4,339,648	533,685	—	—	4,873,333	—	4,873,333	4,902,513
Prepaid expenses and other	2,049,982	805	45,697	—	2,096,484	—	2,096,484	2,441,725
Estimated receivable from Medicare and Medicaid settlements	454,030	—	—	—	454,030	—	454,030	—
Due from subsidiaries	1,432,842	456,050	12,201,650	131,549	14,222,091	(14,222,091)	—	—
Assets whose use is limited:								
Required for current liabilities	1,033,408	—	—	—	1,033,408	—	1,033,408	1,010,068
Total current assets	<u>75,332,354</u>	<u>1,471,194</u>	<u>12,275,445</u>	<u>2,212,281</u>	<u>91,291,274</u>	<u>(14,222,091)</u>	<u>77,069,183</u>	<u>70,275,700</u>
Assets whose use is limited:								
Board-designated funds	34,949,642	—	—	—	34,949,642	—	34,949,642	41,245,989
Under bond indenture agreement – held by Trustee	119	—	—	—	119	—	119	939
Donor-restricted – specific purpose	—	—	—	6,095,571	6,095,571	—	6,095,571	6,888,186
Donor-restricted – endowment	—	—	—	2,854,961	2,854,961	—	2,854,961	2,761,346
Less amount required for current liabilities	(1,033,408)	—	—	—	(1,033,408)	—	(1,033,408)	(1,010,068)
Total assets whose use is limited	<u>33,916,353</u>	<u>—</u>	<u>—</u>	<u>8,950,532</u>	<u>42,866,885</u>	<u>—</u>	<u>42,866,885</u>	<u>49,886,392</u>
Property and equipment:								
Property and equipment	193,445,887	44,275	20,420,849	—	213,911,011	—	213,911,011	243,180,328
Accumulated depreciation and amortization	(136,504,335)	(44,275)	(15,149,929)	—	(151,698,539)	—	(151,698,539)	(180,427,977)
Total property and equipment	<u>56,941,552</u>	<u>—</u>	<u>5,270,920</u>	<u>—</u>	<u>62,212,472</u>	<u>—</u>	<u>62,212,472</u>	<u>62,752,351</u>
Other assets:								
Other receivables – noncurrent	1,141,000	—	—	—	1,141,000	—	1,141,000	1,306,500
Investments in subsidiaries	17,534,433	—	—	—	17,534,433	(17,534,433)	—	—
Investments in unconsolidated affiliates	993,424	—	—	—	993,424	—	993,424	1,104,376
Deferred compensation plan	2,507,525	—	—	—	2,507,525	—	2,507,525	2,813,743
Cash value of life insurance	727,382	—	—	—	727,382	—	727,382	727,382
Deferred costs and other	230,187	—	—	—	230,187	—	230,187	230,187
Intangible assets	24,075	—	1,471,409	—	1,495,484	—	1,495,484	1,550,159
Goodwill	318,500	—	—	—	318,500	—	318,500	318,500
Total other assets	<u>23,476,526</u>	<u>—</u>	<u>1,471,409</u>	<u>—</u>	<u>24,947,935</u>	<u>(17,534,433)</u>	<u>7,413,502</u>	<u>8,050,847</u>
Total assets	<u>\$ 189,666,785</u>	<u>1,471,194</u>	<u>19,017,774</u>	<u>11,162,813</u>	<u>221,318,566</u>	<u>(31,756,524)</u>	<u>189,562,042</u>	<u>190,965,290</u>

## TUALITY HEALTHCARE AND SUBSIDIARIES

## Consolidating Schedule of Balance Sheet Information

June 30, 2022 and 2021

Liabilities and Net Assets	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated	
							June 30, 2022	June 30, 2021
Current liabilities:								
Accounts payable	\$ 22,275,108	1,311,462	924,707	1,128,770	25,640,047	(14,222,091)	11,417,956	10,341,227
Due to related party	24,619,859	—	—	—	24,619,859	—	24,619,859	6,799,144
Accrued payroll and employee benefits	14,771,766	—	—	—	14,771,766	—	14,771,766	13,476,435
Deferred Revenue COVID CARES	2,672,006	—	—	—	2,672,006	—	2,672,006	13,106,758
Estimated liabilities for Medicare and Medicaid settlements	—	—	—	—	—	—	—	423,170
Long-term debt due within one year	1,089,901	—	—	—	1,089,901	—	1,089,901	1,051,857
Accrued bond interest payable	78,408	—	—	—	78,408	—	78,408	85,068
Total current liabilities	65,507,048	1,311,462	924,707	1,128,770	68,871,987	(14,222,091)	54,649,896	45,283,659
Long-term liabilities:								
Long-term debt, net of amount due within one year	9,958,578	—	—	—	9,958,578	—	9,958,578	11,034,318
Liability for pension benefits	29,679,508	—	—	—	29,679,508	—	29,679,508	42,224,066
Other long-term liabilities	23,872,819	—	—	—	23,872,819	—	23,872,819	26,093,296
Total long-term liabilities	63,510,905	—	—	—	63,510,905	—	63,510,905	79,351,680
Total liabilities	129,017,953	1,311,462	924,707	1,128,770	132,382,892	(14,222,091)	118,160,801	124,635,339
Net assets:								
Net assets without donor restrictions	60,648,832	159,732	18,093,067	952,986	79,854,617	(17,534,433)	62,320,184	56,575,736
Net assets with donor restrictions	—	—	—	9,081,057	9,081,057	—	9,081,057	9,754,215
Total net assets	60,648,832	159,732	18,093,067	10,034,043	88,935,674	(17,534,433)	71,401,241	66,329,951
Total liabilities and net assets	\$ 189,666,785	1,471,194	19,017,774	11,162,813	221,318,566	(31,756,524)	189,562,042	190,965,290

See accompanying independent auditors' report.

## TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Operations

Years ended June 30, 2022 and 2021

	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated	
							June 30, 2022	June 30, 2021
Patient service revenue	\$ 260,222,650	1,775,179	—	—	261,997,829	—	261,997,829	226,775,029
OHSU support	11,050,787	—	—	—	11,050,787	—	11,050,787	746,452
Other revenue	15,445,205	299,114	2,985,597	139,169	18,869,085	(3,180,010)	15,689,075	24,738,334
Total revenue	286,718,642	2,074,293	2,985,597	139,169	291,917,701	(3,180,010)	288,737,691	252,259,815
Operating expenses:								
Salaries and wages	100,417,369	—	—	—	100,417,369	—	100,417,369	91,704,281
Employee benefits	24,197,896	(1,655)	—	—	24,196,241	—	24,196,241	23,270,526
Supplies and other expenses	112,671,706	2,136,152	596,134	964	115,404,956	(2,688,286)	112,716,670	93,014,957
Professional fees	43,131,160	—	—	—	43,131,160	—	43,131,160	31,946,837
Management fees	—	491,724	—	—	491,724	(491,724)	—	—
Depreciation and amortization	7,217,748	19,242	219,104	—	7,456,094	—	7,456,094	8,291,254
Interest	706,870	—	—	—	706,870	—	706,870	718,534
Total operating expenses	288,342,749	2,645,463	815,238	964	291,804,414	(3,180,010)	288,624,404	248,946,389
(Loss) income from operations	(1,624,107)	(571,170)	2,170,359	138,205	113,287	—	113,287	3,313,426
Other income:								
Other operating revenue (expenses)	—	—	—	—	—	—	—	—
Realized income on investments whose use is limited by board designation	255,671	—	—	—	255,671	—	255,671	221,574
Change on unrealized gains (losses) on investments	(6,624,385)	—	—	—	(6,624,385)	—	(6,624,385)	6,132,923
Gain (loss) on investments in affiliated companies	610,348	—	—	—	610,348	—	610,348	2,303,396
Gain on disposal of property and equipment	(49,400)	(6,378)	(16,157)	—	(71,935)	—	(71,935)	17,900
Other nonoperating expenses	—	—	—	—	—	—	—	—
Total other (loss) income	(5,807,766)	(6,378)	(16,157)	—	(5,830,301)	—	(5,830,301)	8,675,793
(Deficit) excess of revenue over expenses	(7,431,873)	(577,548)	2,154,202	138,205	(5,717,014)	—	(5,717,014)	11,989,219
Contributions for property and equipment acquisition	—	—	—	—	—	—	—	—
Change in net unrealized gains (losses) on other than trading securities	24,917	—	—	—	24,917	—	24,917	506,427
Pension-related changes	11,436,545	—	—	—	11,436,545	—	11,436,545	20,815,118
Increase (decrease) in net assets without donor restrictions	\$ 4,029,589	(577,548)	2,154,202	138,205	5,744,448	—	5,744,448	33,310,764

See accompanying independent auditors' report.