



ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Schedules

September 30, 2022 and 2021

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Directors
Asante Health System and subsidiaries:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Asante Health System and subsidiaries (the Company), which comprise the consolidated balance sheets as of September 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 September 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 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 supplementary information included on pages 33 to 35 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
December 14, 2022

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2022 and 2021

(In thousands)

Assets	2022	2021
Current assets:		
Cash and cash equivalents	\$ 44,528	123,440
Assets whose use is limited, current portion	8,914	8,750
Patient accounts receivable, net	173,129	151,738
Accrued interest and other receivables	32,013	25,784
Inventories	17,368	16,209
Prepaid expenses	16,003	17,694
Total current assets	291,955	343,615
Assets whose use is limited:		
Restricted by donors	45,867	28,477
Beneficial Interest in Ashland Community Health Foundation	451	778
Assets restricted under bond indenture	56,465	198,120
Board and other designated assets	12,441	45,337
	115,224	272,712
Less amount required to meet current obligations	8,914	8,750
	106,310	263,962
Marketable securities	604,168	800,004
Property, plant, and equipment, net	664,650	519,389
Land held for future use	10,809	10,809
Other assets, net	12,387	12,114
Total assets	\$ 1,690,279	1,949,893

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2022 and 2021

(In thousands)

Liabilities and Net Assets	2022	2021
	2022	2021
Current liabilities:		
Accounts payable	\$ 45,128	37,868
Payroll, payroll taxes, and related benefits	38,528	58,915
Self-insurance liability, current portion	12,829	10,547
Estimated reimbursement due to government agencies, net	8,233	7,376
Other current liabilities	51,671	54,428
Medicare accelerated and advance payment	91	51,772
Current portion of long-term debt and finance lease obligations	8,914	8,750
	165,394	229,656
Total current liabilities		
Long-term debt and finance lease obligations, net of current portion and unamortized bond cost	531,968	543,972
Pension benefit obligation	3,357	7,499
Other long-term liabilities	32,552	36,543
	733,271	817,670
Total liabilities		
Net assets:		
Without donor restrictions	910,482	1,102,962
With donor restrictions	46,526	29,261
	957,008	1,132,223
Total net assets		
Total liabilities and net assets	\$ 1,690,279	1,949,893

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended September 30, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Revenue and other support:		
Net patient service revenue	\$ 1,123,815	1,050,381
Other operating revenue	59,749	47,221
Total revenue and other support	<u>1,183,564</u>	<u>1,097,602</u>
Operating expenses:		
Salaries and benefits	747,754	624,077
Supplies	233,089	207,803
Purchased services	95,022	84,206
Professional fees	21,882	21,830
Repairs and maintenance	12,810	11,614
Insurance	5,744	3,845
Rent and utilities	11,132	12,712
Interest and amortization	4,776	5,976
Depreciation	43,581	43,593
Provider tax expense	60,376	56,013
Other	8,591	7,117
Total operating expenses	<u>1,244,757</u>	<u>1,078,786</u>
Operating (loss) income	<u>(61,193)</u>	<u>18,816</u>
Nonoperating income (loss):		
Investment income, net of fees	41,875	74,994
Change in unrealized gains and losses on trading investments	(181,066)	59,826
Other, net	(747)	4,217
Total nonoperating (loss) income	<u>(139,938)</u>	<u>139,037</u>
(Deficit) excess of revenue over expenses, carried forward	\$ <u>(201,131)</u>	<u>157,853</u>

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Assets without donor restrictions:		
(Deficit) excess of revenue over expenses, carried forward	\$ (201,131)	157,853
Net assets released from restrictions used for purchases of property, plant, and equipment	<u>8,651</u>	<u>2,326</u>
(Decrease) increase in net assets without restrictions	<u>(192,480)</u>	<u>160,179</u>
Assets with donor restrictions:		
Contributions and investment income	26,947	11,965
Net assets released from restrictions	<u>(9,682)</u>	<u>(8,202)</u>
Increase in net assets with restrictions	<u>17,265</u>	<u>3,763</u>
(Decrease) Increase in net assets	(175,215)	163,942
Net assets, beginning of year	<u>1,132,223</u>	<u>968,281</u>
Net assets, end of year	<u>\$ 957,008</u>	<u>1,132,223</u>

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2022 and 2021

(In thousands)

	2022	2021
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (175,215)	163,942
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	40,492	42,173
Loss on sale of property, plant, and equipment	76	418
Realized and net change in unrealized gains and losses on marketable securities	162,724	(133,540)
Earnings of healthcare joint ventures	(1,530)	(1,693)
Change in interest in Ashland Community Health Foundation	325	4,515
Distributions from investments in healthcare ventures	482	1,790
Restricted contributions	—	(287)
Change in operating assets and liabilities:		
Operating assets	(26,312)	(39,377)
Operating liabilities	(70,468)	(18,189)
Net cash (used in) provided by operating activities	(69,426)	19,752
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(191,010)	(160,116)
Sales of marketable securities and assets whose use is limited	436,853	294,962
Purchases of marketable securities and assets whose use is limited	(246,579)	(193,154)
Net cash used in investing activities	(736)	(58,308)
Cash flows from financing activities:		
Principal payments on long-term debt and capital lease obligations	(8,750)	(15,558)
Restricted Contributions	—	287
Net cash used in financing activities	(8,750)	(15,271)
Net decrease in cash and cash equivalents	(78,912)	(53,827)
Cash and cash equivalents, beginning of year	123,440	177,267
Cash and cash equivalents, end of year	\$ 44,528	123,440
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 7,784	10,285
Change in capital purchases in accounts payable	2,092	8,604
Assets obtained in exchange for new operating lease obligations	4,183	16,929

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

(1) Organization

Asante Health System (Asante) is a private, not-for-profit, community-based healthcare organization providing health-related services to the residents of southern Oregon and northern California. Asante includes the operations of the following private, not-for-profit operating units and affiliates:

Asante Corporate (Parent Company)

Corporate is a system-wide administrative function supporting Asante's integrated delivery system and is part of the Asante Obligated Group.

(a) Operating Units (which comprise the Obligated Group)

Asante has established an Obligated Group to access capital markets. Obligated Group members are jointly and severally liable for the long-term debt outstanding under the Obligated Group's master trust indenture. Asante's operating units, which comprise the Obligated Group, are as follows:

(i) Asante Rogue Regional Medical Center (ARRMC)

ARRMC is a regional referral healthcare facility located in Medford, Oregon providing for the healthcare needs of southern Oregon and northern California.

(ii) Asante Three Rivers Medical Center (ATRMC)

ATRMC is a medical center in Josephine County providing inpatient and outpatient health care services to the Grants Pass community and surrounding area.

(iii) Asante Ashland Community Hospital (AACH)

AACH is a community hospital providing surgical, emergency, and diagnostic services to the communities in the southern Oregon and northern California.

(b) Other Affiliates

The following are consolidated affiliates of Asante and are not part of the Asante Obligated Group.

(i) Asante Physician Partners (APP)

APP is a wholly owned subsidiary that employs and manages physician providers, including primary care, specialists, and midlevel providers.

(ii) Asante Foundation (the Foundation)

The Foundation is a public benefit corporation of Asante responsible for fundraising and development.

(iii) Southern Oregon Insurance, Inc. (SOII)

SOII is a single-parent direct issue captive, incorporated in the state of Hawaii, providing healthcare professional and commercial general liability insurance and claims management services for Asante.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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(iv) *Southern Oregon Trauma and Emergency Services, LLC (SOTES)*

SOTES is an Oregon LLC that coordinates trauma and emergency medical services provided at ARRCM and ATRMC.

(i) *Health Alliance of Southern Oregon (HASO), dba Asante Health Network.*

HASO is a disregarded entity LLC functioning as a provider network structure amongst community providers, APP providers, and Asante hospitals. Its purpose is to aggregate providers and facilities to improve quality, efficiency, and patient satisfaction in the marketplace through innovative payment arrangements with payors and employers. Currently there are over 700 provider participants including 34 physician groups representing virtually every medical and surgical specialty.

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Asante and other affiliates. All significant intercompany account balances and transactions have been eliminated.

(b) Use of 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 disclosures 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) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid financial instruments with original maturities of three months or less when purchased. Cash equivalent balances included in cash and cash equivalents in the consolidated balance sheets at September 30, 2022 and 2021 are \$8,973,000 and \$7,613,000, respectively. Cash equivalents exclude those balances held as a portion of assets whose use is limited or marketable securities.

Asante maintains cash and cash equivalents on deposit at various institutions, which at times exceed the insured limits by the Federal Deposit Insurance Corporation. This exposes Asante to potential risk of loss in the event the institution becomes insolvent.

(d) Patient Accounts Receivable

Accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Credit is granted without collateral to Asante's patients, most of whom are local residents and are insured under third-party payor agreements. Asante manages the receivables by regularly reviewing its accounts and contracts and by providing appropriate allowances for explicit and implicit price concessions. Asante estimates these allowances based on the aging of

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

accounts receivable, historical collection experience by payor, and other relevant factors. The mix of net receivables based on significant third-party payor classifications is as follows:

	September 30	
	2022	2021
Medicare	36 %	28 %
Medicaid	13	15
Private pay	1	1
Commercial	44	48
Others	6	8
	100 %	100 %

(e) Inventories

Inventories of supplies are valued on weighted average cost.

(f) Assets Whose Use is Limited

Assets whose use is limited are carried at fair value and are accounted for as trading securities and primarily include assets with donor restrictions, assets held by trustees under indenture agreements, and designated assets set aside by the Board of Trustees (the Board) for certain purposes, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts that will be used to satisfy current liabilities are classified as current assets in the accompanying consolidated balance sheets. Gains and losses on sales of assets whose use is limited are computed on the specific-identification method. Interest income or loss (including realized gains and losses on investments, interest, and dividends) is included in nonoperating income unless the income or loss is restricted by donor or law. Unrealized gains and losses on trading securities are included in nonoperating income (loss) in the accompanying consolidated statements of operations.

Assets restricted under bond indenture include proceeds from the Series 2020A – Tax Exempt and 2020B – Federally Taxable bond issuance which established project funds. The project funds will be used for various service expansions including a new patient pavilion at ARMC, expansion of emergency department at ATRMC and two regional cancer centers in Medford and Grants Pass.

(g) Marketable Securities

Marketable securities are accounted for as trading securities and consist principally of mutual funds, U.S. government agency obligations, corporate obligations, and equity securities, and are stated at fair value. These amounts are classified as noncurrent assets in the accompanying consolidated balance sheets as Asante does not intend that they be used to satisfy current obligations. Gains and losses on sales of marketable securities are computed on the specific-identification method. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in nonoperating income (loss). Unrealized gains and losses on trading securities are included in nonoperating income (loss) in the accompanying consolidated statements of operations.

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(h) Property, Plant, and Equipment

Property, plant, and equipment acquisitions are recorded at cost. Depreciation expense is computed using the straight-line method over the following estimated useful lives of the assets:

Buildings	15–50 years
Equipment	3–25 years
Land improvements	8–20 years
Leasehold improvements	The shorter of lease term or useful life

Equipment under finance 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. Such amortization is included within depreciation in the accompanying consolidated financial statements.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as increases in net assets without donor restrictions and are excluded from excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as increases in net assets with donor restrictions.

Asante assesses potential impairment to its long-lived assets, including land held for future use, when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. No impairment losses have been identified as of September 30, 2022 and 2021.

(i) Financing Costs

Financing costs incurred in connection with debt agreements are deferred and amortized over the life of the respective debt, using the effective-interest method, and are included as a reduction to debt in the accompanying consolidated balance sheets.

(j) Investments in Healthcare Ventures

Investments in healthcare-related joint ventures where Asante does not have a controlling interest but has significant influence have been accounted for using the equity method and are included in other assets in the accompanying consolidated balance sheets.

(k) Self-Insurance

(i) Workers' Compensation

The annual self-insured retention under Asante's workers' compensation program is \$750,000 over the life of an individual claim. Asante carries an excess coverage policy for its workers' compensation program. The accrued liability for the self-insured components of the plan includes the unpaid portion of claims that have been reported and estimates for claims that have been

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

incurred but not reported. The actuarially determined total estimated gross liability at September 30, 2022 is \$4,854,000, with \$2,091,000 of this amount insured estimated to be covered by coverage provided by excess carriers. The actuarially determined total estimated gross liability at September 30, 2021 is \$6,744,000, with \$2,117,000 of this amount insured estimated to be covered by coverage provided by excess carriers. The current portion of the accrued liability for workers' compensation is included in self-insurance liability. The long-term portion of the accrued liability is included in other long-term liabilities. The above policy limits and liabilities relate to workers compensation claims prior to September 30, 2020. Effective October 1, 2020 Asante was insured under a worker's compensation plan. No new self-insurance claims were expected to be incurred after September 30. The above policy limits and liabilities relate to workers compensation claims prior to September 30, 2020.

(ii) *Medical*

Asante maintains a self-insured medical plan for its employees. The accrued liability for the self-insured components of the plan includes estimates of the costs for the incurred but not paid claims as well as related claims administration expense.

The actuarially determined estimated liability for Asante is \$7,478,000 and \$5,236,000 at September 30, 2022 and 2021, respectively, and is included in self-insurance liability.

(iii) *Professional Liability*

Asante is self-insured for reported professional liability exposures through SOII. SOII provides coverage for Asante's claims up to \$1 million per claim, with a \$5 million annual aggregate. Asante has purchased insurance with third-party carriers for claims in excess of the \$1 million amount per claim or \$5 million aggregate. The coverage provided by SOII and the third-party carriers is in the form of claims-made insurance policies. Should the claims-made policies not be renewed or replaced, or the excess carriers become unable to perform under the contracts, claims related to occurrences during the terms of the policies but reported subsequent to their termination may be uninsured. Asante, including SOII, records actuarially estimated liabilities for reported claims as well as an estimated tail liability for claims that have been incurred but not reported.

The total expected value of the undiscounted estimated gross liability for Asante at September 30, 2022 is \$17,751,000 with \$3,011,000 of this amount estimated to be covered by excess carriers. The total expected value of the undiscounted estimated gross liability for Asante at September 30, 2021 is \$18,323,000 with \$2,795,000 of this amount estimated to be covered by excess carriers. The current portion of the liability is recorded in self-insurance liability. The long-term portion is included in other long-term liabilities. The receivable for insurance recoveries is included in other assets, net.

Management is not aware of any potential professional liability claims whose settlement would be in excess of amounts provided or would otherwise have a material adverse effect on Asante's consolidated financial position.

(I) *Oregon State Provider Tax*

The State of Oregon operates a provider tax program related to certain patient service revenue at certain qualifying hospitals. Asante recorded provider tax expenses of approximately \$60,376,000 and

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Notes to Consolidated Financial Statements

September 30, 2022 and 2021

\$56,013,000 for the years ended September 30, 2022 and 2021, respectively. Asante recorded provider tax liabilities of \$15,053,000 and \$13,788,000 at September 30, 2022 and 2021, respectively, which are included in other current liabilities in the accompanying consolidated balance sheets. In addition, Asante has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments to Asante related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to Asante. 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 the qualifying hospitals. The amounts received or receivable from OAHHS for the years ended September 30, 2022 and 2021 are \$60,376,000 and \$56,013,000, respectively, which are reflected as a component of net patient service revenue in the accompanying consolidated statements of operations. Asante recorded receivables of \$15,007,000 and \$13,745,000 at September 30, 2022 and 2021, respectively, which are included in other receivables in the accompanying consolidated balance sheets.

(m) Net Assets

(i) Assets without Donor Restrictions

All net assets that are not restricted by third-party donors are included in net assets without donor restrictions.

(ii) Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by Asante has been limited by donors to a specific time period, purpose, or net assets that have been restricted by donors to be maintained by Asante in perpetuity. Spending against endowment funds may not exceed 5% of the corpus in any fiscal year based on Asante's endowment spending policy.

Unconditional promises to give cash and other assets to Asante 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 conditions are met. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When restricted funds to be used for operations are expended for their restricted purposes, these amounts are reflected in net assets without donor restrictions as net assets released from restrictions for operations and are included in other, net on the consolidated statements of operations. When restricted funds are expended for the acquisition of property, plant, and equipment, these amounts are reported as released from restriction for capital in the consolidated statements of changes in net assets.

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Notes to Consolidated Financial Statements

September 30, 2022 and 2021

Net assets with donor restrictions are maintained for the following purposes as stipulated by donors at September 30 (in thousands):

	<u>2022</u>	<u>2021</u>
Capital	\$ 26,936	11,297
Womens, children and infant health	3,886	3,759
Restricted for specific purpose at AACH	659	778
Others	<u>15,045</u>	<u>13,427</u>
Total net assets with donor restrictions	\$ <u>46,526</u>	<u>29,261</u>

(n) Net Patient Service Revenue

Net patient service revenue is reported at 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. Estimated settlements under third-party reimbursement agreements are accrued in the period the related services are rendered and adjusted in future periods, primarily as a result of final settlements.

(o) Other Operating Revenue

Other operating revenue includes revenue from nonpatient care services, clinical revenue, miscellaneous revenue, COVID-19 grant funds and Provider Relief Funds.

(p) Charity Care

Asante provides care to patients who meet poverty guidelines under its charity care policy. Asante does not pursue collection of amounts determined to qualify as charity care; therefore, they are not reported as revenue.

(q) Nonoperating Income

Nonoperating income includes certain items that management deems to be outside the scope of its primary business. Items consist primarily of investment income, change in unrealized gains and losses on trading investments, net results of the Foundation, defined benefit pension costs, and other income. Investment income consists of interest and dividend income and realized gains (losses) from marketable securities and assets whose use is limited, offset by investment management fees.

(r) (Deficit) Excess of Revenue over Expenses

The consolidated statements of operations report the (deficit) excess of revenue over expenses and other changes in net assets without donor restrictions. Changes in net assets without donor restrictions, which are excluded from (deficit) excess of revenue over expenses, consistent with industry practice, include transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions that, by donor restriction, were to be used for the purposes of acquiring such assets).

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September 30, 2022 and 2021

(s) Federal and State Income Taxes

Asante has received a determination letter from the Internal Revenue Service (IRS) stating that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC), except for unrelated business income. Management believes Asante is operated in a manner that qualifies it for tax-exempt status. Income taxes are provided for the tax effects of transactions unrelated to Asante's tax-exempt purpose reported in the consolidated financial statements; however, such activities are not significant to the consolidated financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Asante and recognize a tax liability (or asset) if Asante has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by Asante and has concluded that as of September 30, 2022, there are no uncertain positions taken, or expected to be taken, that would require recognition of a liability (or an asset) or disclosure in the consolidated financial statements. Asante is subject to routine audits by taxing jurisdictions; however, no such audits are currently in process.

(3) COVID-19

On August 25, 2021, Oregon Governor Kate Brown issued a statewide mandate requiring all healthcare workers to be fully vaccinated against COVID-19 on or before October 18, 2021. The mandate applies to Asante, and Asante has been in compliance with the mandate. On January 13, 2022, the U.S. Supreme Court permitted CMS to enforce its interim final rule requiring certain Medicare and Medicaid certified providers to vaccinate their staff against COVID-19. The interim final rule applies to Asante and Asante has taken steps to comply with the rule. Many healthcare workers across the country have decided to leave healthcare for many different reasons. The lack of healthcare workers has increased vacancy percentages and the demand for this labor pool has increased the rate per hour for contract labor personnel to backfill the vacancy. The lack of healthcare workers and the increase in rate per hour has impacted Asante financially, similar to other healthcare systems across the country. Effective April 1, 2022, Governor Kate Brown lifted Oregon's COVID-19 emergency declaration. The termination of Oregon's COVID-19 emergency declaration ends certain flexibility and resources made available to Oregon hospitals and healthcare systems, including flexibility around professional health licensing and access to federal disaster relief funds. Certain safety requirements regarding masks in healthcare settings and vaccinations for healthcare workers do not rely on the state of emergency declaration and remain in effect.

Provider relief funds were not required to be repaid provided recipients attest to and comply with certain terms and conditions, including limits on COVID-19 balance billing. Asante received \$9,945,440 and \$9,385,777 of general distributions as of September 30, 2022 and 2021, respectively which were included in other operating revenue.

In response to COVID-19, Asante submitted eligible expenses for reimbursement to the Federal Emergency Management Agency (FEMA). For the fiscal year ended September 30, 2022, Asante received and recognized \$859,664 in FEMA grant funds which was reported in other operating revenue.

In response to COVID-19 and subsequent to the CARES act, the Centers for Medicare and Medicaid Services (CMS), expanded the existing Accelerated and Advance Payments Program in order to accelerate cash flow to impacted health care providers. For the year ended September 30, 2020, Asante received accelerated and advanced payments of \$73,031,000. Recoupment of 25 percent of Medicare payments

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began in May 2021, one year after the payments were received and was expected to continue for 11 months. After the 11-month period, Medicare began recouping 50 percent of Medicare payments for six months. For the years ended September 30, 2022 and 2021, \$91,000 and \$51,772,000, respectively, was outstanding and recorded as current liabilities.

(4) Marketable Securities and Assets Whose Use is Limited

The composition of marketable securities and assets whose use is limited at fair value at September 30 is as follows (in thousands):

	2022	2021
Corporate equity securities	\$ 101,705	178,841
Mutual funds	486,180	692,702
Corporate bonds	22,080	37,287
Exchange-traded international index funds	7,661	9,212
U.S. government agency obligations	56,192	78,639
U.S. government obligations	17,654	10,490
Cash equivalents	4,872	29,507
Collateralized mortgage obligations	22,597	35,260
	718,941	1,071,938
Add:		
Assets held by Ashland Community Health Foundation	451	778
Less:		
Assets whose use is limited, current portion	8,914	8,750
Assets whose use is limited, net of current portion	106,310	263,962
Marketable securities	\$ 604,168	800,004

In accordance with ASC Topic 820, *Fair Value Measurement*, financial assets and financial liabilities measured at fair value are grouped in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels are as follows:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange; valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets; Level 2 valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions; Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

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The following table presents the balances of assets measured at fair value on a recurring basis at September 30, 2022 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value</u>
Assets:				
Corporate equity securities:				
Large cap value	\$ 36,151	—	—	36,151
Small/mid cap growth	33,912	—	—	33,912
Large cap growth	<u>31,642</u>	<u>—</u>	<u>—</u>	<u>31,642</u>
Total	<u>101,705</u>	<u>—</u>	<u>—</u>	<u>101,705</u>
Mutual funds:				
Equity	321,330	—	—	321,330
Fixed income	101,172	—	—	101,172
Money market	<u>63,678</u>	<u>—</u>	<u>—</u>	<u>63,678</u>
Total	486,180	—	—	486,180
Corporate bonds	—	22,080	—	22,080
Exchange-traded international index funds	7,661	—	—	7,661
U.S. government agency obligations	—	56,192	—	56,192
U.S. government obligations	17,654	—	—	17,654
Collateralized mortgage obligations	—	22,597	—	22,597
Cash equivalents	<u>4,872</u>	<u>—</u>	<u>—</u>	<u>4,872</u>
Total	\$ <u>618,072</u>	<u>100,869</u>	<u>—</u>	<u>718,941</u>

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The following table presents the balances of assets measured at fair value on a recurring basis at September 30, 2021 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value</u>
Assets:				
Corporate equity securities:				
Large cap value	\$ 87,803	—	—	87,803
Small/mid cap growth	46,349	—	—	46,349
Large cap growth	44,689	—	—	44,689
Total	<u>178,841</u>	<u>—</u>	<u>—</u>	<u>178,841</u>
Mutual funds:				
Equity	307,330	—	—	307,330
Fixed income	181,448	—	—	181,448
Money market	203,924	—	—	203,924
Total	692,702	—	—	692,702
Corporate bonds	—	37,287	—	37,287
Exchange-traded international index funds	9,212	—	—	9,212
U.S. government agency obligations	—	78,639	—	78,639
U.S. government obligations	10,490	—	—	10,490
Collateralized mortgage obligations	—	35,260	—	35,260
Cash equivalents	29,507	—	—	29,507
Total	\$ <u>920,752</u>	<u>151,186</u>	<u>—</u>	<u>1,071,938</u>

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(5) Property, Plant, and Equipment

Property, plant, and equipment, net as of September 30 consists of the following (in thousands):

	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 52,469	51,678
Buildings	500,289	413,878
Equipment and furniture	395,374	379,223
Leasehold improvements	2,921	2,921
Operating lease right-of-use assets	19,015	16,929
Buildings under capital leases	<u>5,234</u>	<u>5,234</u>
Property, plant, and equipment, gross	975,302	869,863
Less accumulated depreciation	<u>(575,555)</u>	<u>(531,787)</u>
Property, plant, and equipment, net	399,747	338,076
Construction in progress	<u>264,903</u>	<u>181,313</u>
Total property, plant, and equipment	<u>\$ 664,650</u>	<u>519,389</u>

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. Capitalized interest was \$12,598,000 and \$11,744,000 as of September 30, 2022 and 2021.

(6) Other Assets

Other assets at September 30 consist of the following (in thousands):

	<u>2022</u>	<u>2021</u>
Investments in healthcare ventures	\$ 6,667	5,618
Self-insurance recoverable	5,102	4,912
Other	<u>618</u>	<u>1,584</u>
Total other assets	<u>\$ 12,387</u>	<u>12,114</u>

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(7) Long-Term Debt and Finance Lease Obligations

Long-term debt and financing lease obligations at September 30 consist of the following (in thousands):

	<u>2022</u>	<u>2021</u>
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2020A (inclusive of unamortized premium of \$78,333 and \$81,716 in 2022 and 2021, respectively), maturing in varying annual amounts, due 2050	\$ 517,278	520,661
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2020B, maturing in varying annual amounts, due 2025	17,340	20,000
Oregon Hospital Authority Direct Placement, maturing in varying annual amounts, due 2022 (2015 loan)	1	2,772
2016 Note, due 2023	2,002	4,965
Other	8,466	8,795
Finance lease obligations	<u>471</u>	<u>498</u>
Total long-term debt and finance lease obligations	545,558	557,691
Less unamortized debt issuance costs	(4,676)	(4,969)
Less current portion	<u>(8,914)</u>	<u>(8,750)</u>
Total long-term debt and finance lease obligations, net of current portion	\$ <u>531,968</u>	<u>543,972</u>

Annual maturities of long-term debt and the future minimum financing lease obligations, excluding net bond premium of \$78,333,000, are as follows as of September 30, 2022 (in thousands):

	<u>Long-term debt</u>	<u>Finance lease obligations, excluding interest</u>
2023	\$ 8,884	30
2024	9,019	33
2025	9,213	37
2026	9,574	40
2027	10,086	45
Thereafter	<u>419,978</u>	<u>286</u>
Total long-term debt and finance lease obligations	\$ <u>466,754</u>	<u>471</u>

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(a) Series 2020A – Tax Exempt Bonds

The 2020A Series Bonds were issued in July 2020. The bonds were issued as fixed-rate securities, with maturities beginning in 2025 and final maturity in 2050. The bonds bear interest ranging from 2.5% to 5.0%.

(b) Series 2020B – Federally Taxable Bonds

The 2020B Series Bonds were issued in July 2020. The bonds were issued as fixed-rate securities, with maturities beginning in 2022 and final maturity in 2025. The bonds bear interest ranging from 1.65% to 1.88%.

(c) 2015 Loan

The 2015 loan was issued on September 30, 2015 as a direct placement loan to fund refinancing of a portion of the 2010 bonds, which was completed in October 2015. The loan has a fixed interest rate of 1.81%. The loan is repaid monthly and matured in 2022.

(d) 2016 Note

The loan was issued in May 2016 as a direct placement loan to fund refinancing of a portion of the 2005 bonds and to finance capital purchases. The loan has a fixed interest rate of 1.58%. The loan is repaid monthly and matures in May 2023.

(e) Guarantees

Asante guarantees a loan for CVI Real Property, LLC, which owns a building on the ARRCM campus. The amount of this loan was \$2,397,181 and \$1,193,424 at September 30, 2022 and 2021, respectively.

Asante has a 25% guarantee of indebtedness for CVISO Management Company, LLC. This guarantee is for an operating line of credit in an amount up to \$500,000. The balance outstanding on the line of credit was \$128,731 and \$0 at September 30, 2022 and 2021.

Asante guarantees a loan for The Women's Center, LLC, which owns a building adjacent to the ATRMC campus. The amount of this loan was \$4,264,920 and \$4,431,130 at September 30, 2022 and 2021, respectively.

(f) Debt Covenants

The bond indentures and other loan agreements contain, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of debt service coverage and other ratios. Management believes that Asante is in compliance with these covenants as of September 30, 2022.

(g) Line of Credit

In April 2022, Asante secured a \$10,000,000 unsecured line of credit through Bank of America. The term of the line of credit is for 12 months and bears interest at a variable rate based on the BSBY Daily Floating Rate plus 0.50%. As of September 30, 2022 there was no outstanding balance on this line of credit.

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(8) Leases

Asante leases various buildings, office space, and equipment to support operations. The operating leases included in property and equipment, net as of September 30, 2022 and September 30, 2021 was \$19,015,000 and \$16,929,000. The operating leases included in other current liabilities and other long-term liabilities as of September 30, 2022 and September 30, 2021 were \$3,917,000 and \$2,218,000 and \$13,819,000 and \$15,233,000 respectively. The weighted average terms of the finance and operating leases were 10 and 5 years, respectively. The weighted average discount rate on operating leases were 3.0%.

Asante incurred leases expenses for the years September 30, 2022 and 2021 as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Finance lease expense included in depreciation and amortization:		
Amortization of ROU assets	\$ 26	26
Finance lease expense included in interest:		
Interest on lease liabilities	<u>40</u>	<u>31</u>
Total finance lease expense	66	57
Operating lease expense included in rent and utilities	<u>5,274</u>	<u>2,751</u>
Total lease expense	\$ <u>5,340</u>	<u>2,808</u>

The finance and operating lease liabilities will mature as follows:

	<u>Finance leases</u>	<u>Operating leases</u>	<u>Total leases</u>
2023	\$ 30	4,600	4,630
2024	33	2,185	2,218
2025	37	1,908	1,945
2026	40	1,882	1,922
2027	45	1,364	1,409
Thereafter	<u>286</u>	<u>12,388</u>	<u>12,674</u>
	\$ <u>471</u>	<u>24,327</u>	<u>24,798</u>

(9) Retirement Plan

Asante sponsors the Asante Retirement Plan and Trust, a defined-contribution plan, which has two components: the matching plan and the basic plan. Under the basic plan, Asante contributes 3% of the employee's salary to a tax deferred account. All eligible employees receive this contribution, whether or not they contribute to a tax deferred account. Under the matching plan, after completion of one year of service, Asante matches 50% of the employee's contribution, up to a maximum match of 3% of the employee's pay. To be eligible for both the basic and matching plans, employees must work at least one year and maintain

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a work level of at least 1,000 hours per year. Contributions are funded every two weeks and are fully and immediately vested. Costs related to these defined-contribution plans for Asante totaled \$22,516,000 and \$23,113,000 for the years ended September 30, 2022 and 2021, respectively.

(10) Defined-Benefit Pension Plan

Asante sponsors a noncontributory defined-benefit pension plan (the Plan), covering certain AACH employees and retirees who meet requirements as specified in the Plan. The assets of the Plan are available to pay the benefits of all eligible employees of the Plan. The Plan was frozen effective December 31, 2006. No new participants have been admitted to the Plan after this date, and no additional benefits continue to accrue. Benefits earned before the Plan was frozen will continue to be paid as participants qualify to receive the benefits.

The following table sets forth disclosures related to the Plan in accordance with FASB ASC Section 715-20-65, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of September 30, 2022 and 2021 (in thousands):

	2022	2021
Change in projected benefit obligation:		
Projected benefit obligation (PBO) at beginning year	\$ 42,905	45,886
Interest cost	1,061	1,041
Plan amendments	—	(614)
Actuarial (gain) on PBO, net	(10,304)	(1,210)
Benefits paid	(2,513)	(2,198)
Projected benefit obligation at year-end	\$ 31,149	42,905
Change in fair value of plan assets:		
Fair value of assets at beginning of year	\$ 35,406	30,042
Contributions	689	564
Actual return on plan assets	(5,790)	6,998
Benefits paid	(2,513)	(2,198)
Fair value of assets at end of year	\$ 27,792	35,406
Reconciliation of funded status:		
Funded status – liability	\$ 3,357	7,499
Net amount recognized	\$ 3,357	7,499

Asante immediately recognizes all changes in funded status within (deficit) of revenue over expenses at each funding date. These changes are included in nonoperating (loss) other, net on the consolidated statement of operations.

The accumulated benefit obligation for the Plan is the same as the projected benefit obligation at September 30, 2022 and 2021.

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Net periodic (benefit) includes the following components and is included in nonoperating (loss) other, net in the accompanying consolidated statements of operations (in thousands):

	<u>2022</u>	<u>2021</u>
Interest cost	\$ 1,061	1,041
Expected return on plan assets	(2,073)	(1,762)
Other changes in pension liability	—	(614)
Recognized actuarial (gain)	<u>(2,441)</u>	<u>(6,446)</u>
Net periodic pension (benefit)	\$ <u><u>(3,453)</u></u>	<u><u>(7,781)</u></u>

Assumptions

Asante used the following actuarial assumptions to determine its benefit obligations at September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Discount rate	5.12 %	2.55 %

Asante used the following actuarial assumptions to determine its net periodic benefit cost for the years ended September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Discount rate	2.55 %	2.32 %
Expected long-term rate of return on plan assets	6.00	6.00

The source data for the discount rate used to determine the benefit obligation was a universe of AA or higher rated U.S. dollar – denominated bonds with similar maturities to the projected benefit payments. The expected long-term rate of return on plan assets was based on Asante’s asset allocation mix and the long-term historical return for each asset class, considering current and expected market conditions.

The mortality assumptions were based on the PRI-2012 table with MP-2021 projections as of September 30, 2022.

Pension plan assets are managed according to an investment policy adopted by the Plan’s trustees. Professional investment managers are retained to manage specific asset classes, and professional consulting is utilized for investment performance reporting. The primary objective of the Plan’s trustees is to achieve the highest possible total return commensurate with safety and preservation of capital in real, inflation-adjusted terms. The objective includes having funds invested in the long term, which protect the principal and produce returns sufficient to meet future benefit obligations. The investment policy includes

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an asset allocation that includes equity securities, debt securities, and cash/other investments. The target allocations are:

Asset class	Minimum	Maximum	Target
U.S. short-term fixed income	12.0 %	18.0 %	15.0 %
High-yield fixed income	4.8	7.2	6.0
U.S. equity core	38.4	57.6	48.0
International equity core	16.0	24.0	20.0
Liquid alternatives	9.0	13.0	11.0

Assets are rebalanced annually when balances fall outside of the approved range for each asset class unless unusual circumstances warrant more immediate action.

The following are descriptions of the valuation methodologies used for plan assets measured at fair value:

- Cash and equivalents – Valued at actual value.
- U.S. Common Stock – Valued based on quoted market prices at the reporting date for those or similar investments.
- Government Agency Securities – Valued based on observable assets or liabilities, either directly or indirectly.
- Mutual funds – Valued based on published values representing transactions in active markets.

The methods described above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. In accordance with FASB ASC Topic 820, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to estimate fair value. See note 4 for the definitions of the three levels within the fair value hierarchy.

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The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2022 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>
Cash and equivalents	\$ 715	—	—	715
U.S. Common Stock	3,118	—	—	3,118
Government Agency Securities	—	4,933	—	4,933
Mutual funds:				
Large cap	6,336	—	—	6,336
Mid cap	1,886	—	—	1,886
Small cap	1,383	—	—	1,383
International	5,699	—	—	5,699
Fixed income	2,544	—	—	2,544
High yield	1,065	—	—	1,065
Other	113	—	—	113
Total plan assets at fair value	\$ <u>22,859</u>	<u>4,933</u>	<u>—</u>	<u>27,792</u>

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2021 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>
Cash and equivalents	\$ 131	—	—	131
U.S. Common Stock	4,565	—	—	4,565
Government Agency Securities	—	5,773	—	5,773
Mutual funds:				
Large cap	8,248	—	—	8,248
Mid cap	2,514	—	—	2,514
Small cap	1,814	—	—	1,814
International	7,798	—	—	7,798
Fixed income	3,222	—	—	3,222
High yield	1,331	—	—	1,331
Other	10	—	—	10
Total plan assets at fair value	\$ <u>29,633</u>	<u>5,773</u>	<u>—</u>	<u>35,406</u>

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Cash Flows

Asante's policy with respect to funding the Plan is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended, plus such additional amounts deemed appropriate. In fiscal year 2023, Asante expects to contribute approximately \$600,000 to the Plan.

Benefit payments are expected to be paid as follows in future years (in thousands):

	Pension benefits
2023	\$ 2,282
2024	2,194
2025	2,194
2026	2,220
2027	2,318
2028–2032	10,957

(11) Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Asante expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, Asante bills 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.

Revenue for performance obligations satisfied over time is recognized based on actual goods or services provided. Generally, performance obligations satisfied over time relate to patients in Asante's hospitals receiving inpatient acute care services. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and Asante does not believe it is required to provide additional goods or services to the patient. The timing of revenue and recognition of substantially all services is at the time services are rendered.

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

Asante has agreements with Medicare and Medicaid programs and various other payors, which provide for payments to Asante at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare/Medicaid – Inpatient acute care services rendered to these program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to patient classification systems

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that are based on clinical, diagnostic, and other factors. Medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The majority of Medicare outpatient services are reimbursed based on the prospective payment system known as Ambulatory Payment Classification. Asante is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by Asante and audits thereof by the third-party payors.

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 Asante's historical settlement activity and are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments from finalization and adjustment of prior years' cost reports and other third-party settlement estimates resulted in an increase in net patient service revenue of approximately \$857,000 for September 30, 2022 and a decrease of \$751,000 for the year ended September 30, 2021.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance. Asante also provides services to uninsured patients and offers those uninsured patients a discount from standard charge. Asante estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended September 30, 2022 and 2021 was not significant.

Consistent with Asante's mission, Asante provides care without charge or at amounts less than its established rates to uninsured patients. Therefore, Asante has determined it has provided price concessions to uninsured patients and patients with uninsured balances. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts Asante expects to collect based on its collection history with those patients who have been determined to qualify for financial assistance.

Management evaluates revenue by nature in the following categories (in thousands):

	2022	2021
Revenue by payor:		
Medicare	\$ 425,708	389,952
Medicaid	216,289	205,804
Commercial and others	470,065	440,985
Private pay	11,753	13,640
	\$ 1,123,815	1,050,381

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	<u>2022</u>	<u>2021</u>
Patient revenue:		
Inpatient revenue	\$ 538,242	511,699
Outpatient revenue	<u>585,573</u>	<u>538,682</u>
	<u>\$ 1,123,815</u>	<u>1,050,381</u>

(12) Charity and Community Benefit

Asante provides services without charge, or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. The estimated cost of charges forgone is determined by multiplying forgone charges by the ratio of gross operating expenses divided by gross operating revenue. The estimated cost of providing these services for the years ending September 30, 2022 and 2021 was \$6,451,000 and \$6,795,000, respectively.

Asante prides itself on providing high-quality, accessible, and cost-effective care in all areas, thus allowing it to achieve its mission, which includes offering a broad range of health programs and services to the community. In some cases, the revenue from these needed programs do not cover the costs of the program. These programs are offered due to community need and so reflect additional support provided by Asante to the community. Among these services are behavioral health programs, obstetrics, maternal fetal medicine, and lab outreach programs.

(13) Functional Classification of Operating Expenses

Asante provides patient services and support services. Support services include costs that are not directly related to provision of patient services. Asante leadership drives the support costs, which benefit the entire organization. Costs that are directly related to provision of patient services are allocated to patient services.

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The following table is a summary of management's functional classification of operating expenses for the years ended September 30 (in thousands):

	2022		
	Patient services	Support services	Total
Salaries and benefits	\$ 606,827	140,927	747,754
Supplies	221,998	11,091	233,089
Purchased services	25,547	69,475	95,022
Professional fees	2,925	18,957	21,882
Repairs and maintenance	9,543	3,267	12,810
Insurance	4,332	1,412	5,744
Rent and utilities	1,423	9,709	11,132
Interest and amortization	—	4,776	4,776
Depreciation	—	43,581	43,581
Provider tax	60,376	—	60,376
Other	2,195	6,396	8,591
Total	\$ 935,166	309,591	1,244,757

	2021		
	Patient services	Support services	Total
Salaries and benefits	\$ 474,422	149,655	624,077
Supplies	197,893	9,910	207,803
Purchased services	20,686	63,520	84,206
Professional fees	2,979	18,851	21,830
Repairs and maintenance	8,437	3,177	11,614
Insurance	2,859	986	3,845
Rent and utilities	1,113	11,599	12,712
Interest and amortization	—	5,976	5,976
Depreciation	—	43,593	43,593
Provider tax	56,013	—	56,013
Other	2,187	4,930	7,117
Total	\$ 766,589	312,197	1,078,786

(14) Liquidity

As of September 30, 2022 and 2021, respectively, Asante has working capital excess of \$126,561,000 and \$113,959,000 and average days (based on normal expenditures) cash on hand of 201 and 342 days.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

The table below represents financial assets available for general expenditures within one year at September 30, 2022 and 2021:

	2022	2021
Financial assets at year end:		
Cash and cash equivalents	\$ 44,528	123,440
Accounts receivable, net	173,129	151,738
Marketable securities	604,168	800,004
Total financial assets	\$ 821,825	1,075,182

Asante has other assets limited to use for donor-restricted purposes and debt service. Additionally, certain other foundation donor restricted assets are designated for future capital expenditures. These assets limited to use, which are more fully described in note 2(m), are not available for general expenditure within the next year and are not reflected in the amounts above.

(15) Commitments and Contingencies

(a) Risk Management

In the ordinary course of business, Asante is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. 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 September 30, 2022 and 2021.

(b) 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, and 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 Asante 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 government review and interpretation, as well as regulatory actions unasserted at this time.

In addition, Asante is 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 Asante's future consolidated financial position or results of operations.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

(c) *Collective Bargaining Agreements*

Approximately 16.6% of Asante's employees are covered by a collective bargaining agreement. All employees are bedside nurses with the Oregon Nurses Association working at ARRCM. One contract covers all the employees in this bargaining unit, and the most recent contract is effective October, 24, 2020 through September 30, 2023.

(d) *Purchase Commitments*

Asante has committed to various construction and information technology purchases, including ARRCM Pavilion construction. As of September 30, 2022, future commitments for these projects total approximately \$120,148,028. Commitments are expected to be funded by the Series 2020A – Tax Exempt bond funds, and excess working capital.

(16) *Subsequent Events*

Asante has evaluated the impact of subsequent events through December 14, 2022, the date on which the consolidated financial statements were issued and has determined that all subsequent events have been appropriately reflected in the accompanying consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES
Consolidating Schedule – Balance Sheet Information
September 30, 2022
(In thousands)

Assets	Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Current assets:				
Cash and cash equivalents	\$ 32,505	12,023	—	44,528
Assets whose use is limited, current portion	8,914	—	—	8,914
Patient accounts receivable, net	165,909	7,220	—	173,129
Accrued interest and other receivables	20,991	11,022	—	32,013
Inventories	17,368	—	—	17,368
Prepaid expenses	15,961	42	—	16,003
Total current assets	<u>261,648</u>	<u>30,307</u>	<u>—</u>	<u>291,955</u>
Intercompany receivable (payable)	211,118	(211,118)		—
Assets whose use is limited:				
Restricted by donors	—	45,867	—	45,867
Beneficial interest in Ashland Community Health Foundation	—	451	—	451
Assets restricted under bond indenture	56,465	—	—	56,465
Board and other designated assets	8,914	3,527	—	12,441
	<u>65,379</u>	<u>49,845</u>	<u>—</u>	<u>115,224</u>
Less amount required to meet current obligations	<u>8,914</u>	<u>—</u>	<u>—</u>	<u>8,914</u>
	56,465	49,845	—	106,310
Marketable securities	598,537	5,631	—	604,168
Property, plant, and equipment, net	641,590	23,060	—	664,650
Land held for future use	10,809	—	—	10,809
Beneficial interest in Asante Foundation	53,689	—	(53,689)	—
Other assets, net	18,415	(6,028)	—	12,387
Total assets	<u>\$ 1,852,271</u>	<u>(108,303)</u>	<u>(53,689)</u>	<u>1,690,279</u>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

September 30, 2022

(In thousands)

Liabilities and Net Assets	Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Current liabilities:				
Accounts payable	\$ 43,368	1,760	—	45,128
Payroll, payroll taxes, and related benefits	37,046	1,482	—	38,528
Self-insurance liability, current portion	9,512	3,317	—	12,829
Estimated reimbursement due to government agencies, net	8,233	—	—	8,233
Other current liabilities	48,046	3,625	—	51,671
Medicare accelerated and advance payments	91	—	—	91
Current portion of long-term and financing lease obligations	8,914	—	—	8,914
Total current liabilities	155,210	10,184	—	165,394
Long-term debt and financing lease obligations, net of current portion and unamortized bond cost	531,968	—	—	531,968
Pension benefit obligation	3,357	—	—	3,357
Other long-term liabilities	27,225	5,327	—	32,552
Total liabilities	717,760	15,511	—	733,271
Net assets:				
Without donor restrictions	1,093,279	(170,133)	(12,664)	910,482
With donor restrictions	41,232	46,319	(41,025)	46,526
Total net assets	1,134,511	(123,814)	(53,689)	957,008
Total liabilities and net assets	\$ 1,852,271	(108,303)	(53,689)	1,690,279

See accompanying independent auditors' report.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Operations and Changes in Net Assets Information

Year ended September 30, 2022

(In thousands)

	<u>Asante Obligated Group</u>	<u>Other affiliates</u>	<u>Eliminations</u>	<u>Consolidated total</u>
Revenue and other support:				
Net patient service revenue	\$ 1,062,748	61,067	—	1,123,815
Other operating revenue	<u>36,707</u>	<u>25,143</u>	<u>(2,101)</u>	<u>59,749</u>
Total revenue and other support	<u>1,099,455</u>	<u>86,210</u>	<u>(2,101)</u>	<u>1,183,564</u>
Operating expenses:				
Salaries and benefits	668,801	78,953	—	747,754
Supplies	228,254	4,835	—	233,089
Purchased services	77,133	17,889	—	95,022
Professional fees	21,435	447	—	21,882
Repairs and maintenance	12,475	335	—	12,810
Insurance	2,207	5,090	(1,553)	5,744
Rent and utilities	11,001	131	—	11,132
Interest and amortization	4,776	548	(548)	4,776
Depreciation	41,717	1,864	—	43,581
Provider tax expense	60,376	—	—	60,376
Other	<u>6,957</u>	<u>1,634</u>	<u>—</u>	<u>8,591</u>
Total operating expenses	<u>1,135,132</u>	<u>111,726</u>	<u>(2,101)</u>	<u>1,244,757</u>
Operating (loss)	<u>(35,677)</u>	<u>(25,516)</u>	<u>—</u>	<u>(61,193)</u>
Nonoperating (loss)	<u>(124,253)</u>	<u>(15,685)</u>	<u>—</u>	<u>(139,938)</u>
(Deficit) of revenues over expenses	<u>(159,930)</u>	<u>(41,201)</u>	<u>—</u>	<u>(201,131)</u>
Net assets without restrictions released from restrictions used for purchases of property, plant, and equipment	<u>8,651</u>	<u>—</u>	<u>—</u>	<u>8,651</u>
(Decrease) in net assets without donor restrictions	<u>(151,279)</u>	<u>(41,201)</u>	<u>—</u>	<u>(192,480)</u>
Net assets with donor restriction:				
Contributions and investment income	26,947	26,745	(26,745)	26,947
Net assets released from restrictions	<u>(9,682)</u>	<u>(9,682)</u>	<u>9,682</u>	<u>(9,682)</u>
Increase (decrease) in net assets with restrictions	<u>17,265</u>	<u>17,063</u>	<u>(17,063)</u>	<u>17,265</u>
(Decrease) in net assets	<u>(134,014)</u>	<u>(24,138)</u>	<u>(17,063)</u>	<u>(175,215)</u>
Net assets, beginning of year:				
Without donor restrictions	1,244,558	(128,931)	(12,665)	1,102,962
With donor restrictions	<u>23,967</u>	<u>29,255</u>	<u>(23,961)</u>	<u>29,261</u>
Net assets, end of year	<u>\$ 1,134,511</u>	<u>(123,814)</u>	<u>(53,689)</u>	<u>957,008</u>

See accompanying independent auditors' report.