KPMG

PEACEHEALTH NETWORKS

Consolidated Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

PEACEHEALTH NETWORKS

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

Independent Auditors' Report

The Board of Directors
PeaceHealth Networks:

Opinion

We have audited the consolidated financial statements of PeaceHealth Networks (the Corporation), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Corporation 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 Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

KPMG LLP

Portland, Oregon
September 29, 2022

PEACEHEALTH NETWORKS

Consolidated Balance Sheets

June 30, 2022 and 2021

(In thousands)

Assets		**2022**	**2021**
Current assets:			
Cash and cash equivalents	$	43,699	181,586
Short-term investments		701,862	1,350,263
Accounts receivable		380,665	333,958
Other receivables		66,777	40,251
Pending trades receivable		98,927	—
Inventory of supplies		112,012	97,580
Prepaid expenses and other		38,828	45,185
Assets whose use is limited that are required for current liabilities		14,096	8,907
Total current assets		1,456,866	2,057,730
Assets whose use is limited:			
Cash equivalents and investments		1,619,835	1,800,111
Investments in joint ventures and other		81,453	36,726
Total assets whose use is limited		1,701,288	1,836,837
Less current portion		(14,096)	(8,907)
Net assets whose use is limited		1,687,192	1,827,930
Property, plant, and equipment:			
Land and improvements		150,928	150,632
Buildings, fixed equipment, and other		1,949,274	1,900,101
Moveable equipment		1,123,522	1,075,745
Construction in progress		118,253	60,224
Total property, plant, and equipment		3,341,977	3,186,702
Less accumulated depreciation		(2,121,432)	(1,981,736)
Net property, plant, and equipment		1,220,545	1,204,966
Interest in net assets of related foundations		131,994	79,172
Operating lease right-of-use assets		88,918	77,740
Other assets		105,548	110,657
Total assets	$	4,691,063	5,358,195

See accompanying notes to consolidated financial statements.

PEACEHEALTH NETWORKS

Consolidated Balance Sheets

June 30, 2022 and 2021

(In thousands)

Liabilities and Net Assets		2022	2021
Current liabilities:			
Accounts payable	$	179,027	147,042
Accrued payroll, payroll taxes, and employee benefits		222,689	218,485
Accrued interest payable		5,594	5,732
Medicare advanced funding		89,419	153,234
Current portion of operating lease liabilities		10,425	11,884
Other current liabilities		58,513	65,154
Pending trades payable		25,621	15,114
Current portion of long-term debt		14,409	15,829
Total current liabilities		605,697	632,474
Other long-term liabilities		249,180	462,537
Long-term operating lease liabilities, net of current portion		82,817	69,940
Long-term debt, net of current portion		1,449,334	1,431,504
Net assets:			
Without donor restrictions, controlling interest		2,126,685	2,651,418
Without donor restrictions, noncontrolling interest		2,397	6,990
With donor restrictions		174,953	103,332
Total net assets		2,304,035	2,761,740
Total liabilities and net assets	$	4,691,063	5,358,195

See accompanying notes to consolidated financial statements.

PEACEHEALTH NETWORKS

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

Years ended June 30, 2022 and 2021

(In thousands)

	2022	2021
Revenues:		
Patient service revenue	$ 3,103,344	2,896,963
Other operating revenue	187,273	115,685
Total revenues	3,290,617	3,012,648
Expenses:		
Salaries and wages	1,876,501	1,550,112
Payroll taxes and benefits	308,098	300,823
Supplies	521,794	464,734
Purchased services	453,460	420,520
Other	217,259	196,441
Depreciation and amortization	148,969	150,668
Interest and amortization of deferred financing costs	42,146	38,913
Total expenses	3,568,227	3,122,211
Loss from recurring operations	(277,610)	(109,563)
Nonrecurring operating loss	(16,494)	—
Loss from operations	(294,104)	(109,563)
Other income (expense):		
Investment return, net	(260,119)	465,165
Net change in interest rate swaps	49,901	16,280
Loss on bond refinancing	—	(9,414)
Other	(96,969)	(55,307)
Total other (expense) income	(307,187)	416,724
(Deficit) excess of revenues over expenses	(601,291)	307,161
Net assets released from restrictions for property, plant, and equipment	4,254	4,237
Change in pension liability	69,522	24,831
Other	(1,811)	(2,706)
(Decrease) increase in net assets without donor restrictions	$ (529,326)	333,523

See accompanying notes to consolidated financial statements.

PEACEHEALTH NETWORKS

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2022 and 2021

(In thousands)

		Without donor restrictions			
		Controlling interest	Noncontrolling interest	With donor restrictions	Total
Net assets at June 30, 2020	$	2,319,025	5,860	83,446	2,408,331
Excess of revenues over expenses		306,031	1,130	—	307,161
Restricted contributions		—	—	4,237	4,237
Net assets released from restrictions		4,237	—	(5,120)	(883)
Change in interest in net assets of related foundations		—	—	17,055	17,055
Change in pension liability		24,831	—	—	24,831
Other		(2,706)	—	3,714	1,008
Change in net assets		332,393	1,130	19,886	353,409
Net assets at June 30, 2021		2,651,418	6,990	103,332	2,761,740
(Deficit) excess of revenues over expenses		(601,929)	638	—	(601,291)
Restricted contributions		—	—	4,254	4,254
Net assets released from restrictions		4,254	—	(5,095)	(841)
Change in interest in net assets of related foundations		—	—	52,777	52,777
Change in pension liability		69,522	—	—	69,522
Other		3,420	(5,231)	19,685	17,874
Change in net assets		(524,733)	(4,593)	71,621	(457,705)
Net assets at June 30, 2022	$	2,126,685	2,397	174,953	2,304,035

See accompanying notes to consolidated financial statements.

PEACEHEALTH NETWORKS

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

		2022	2021
Cash flows from operating activities:			
Change in net assets	$	(457,705)	353,409
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Depreciation and amortization		148,969	150,668
(Gain) loss on sale of property, plant, and equipment		(303)	2,187
Change in pension liability		(69,522)	(24,831)
Restricted contributions		(4,254)	(4,237)
Net change in realized and unrealized gains on investments		302,498	(422,212)
Valuation adjustments on swap arrangements		(62,678)	(29,292)
Change in interest in net assets of related foundations		(52,777)	(17,055)
Equity earnings on investments, net of distributions		862	3,781
Loss on refinancing		—	9,414
Changes in operating assets and liabilities:			
Increase in:			
Accounts receivable		(46,707)	(59,460)
Other assets		(129,323)	(24,824)
Increase (decrease) in:			
Accounts payable		31,985	6,373
Medicare advanced funding		(63,815)	(26,472)
Accrued payroll, payroll taxes, and employee benefits		4,204	30,064
Other liabilities		(77,233)	1,240
Net cash used in operating activities		(475,799)	(51,247)
Cash flows from investing activities:			
Purchase of property, plant, and equipment		(167,341)	(115,108)
Proceeds from sale of land held for sale and property, plant, and equipment		3,999	1,131
Purchase of alternative investments		(215,045)	(60,056)
Sales of alternative investments		130,641	29,979
Sales (purchases) of investments, net		564,994	(517,015)
Net cash provided by (used in) investing activities		317,248	(661,069)
Cash flows from financing activities:			
Principal payments on long-term debt		(11,040)	(268,354)
Proceeds from new financing		27,450	741,305
Payment of deferred financing costs		—	(4,194)
Proceeds from restricted contributions		4,254	4,237
Net cash provided by financing activities		20,664	472,994
Net decrease in cash and cash equivalents		(137,887)	(239,322)
Cash and cash equivalents at beginning of year		181,586	420,908
Cash and cash equivalents at end of year	$	43,699	181,586
Supplemental disclosure of cash flow information:			
Capital expenditures included in accounts payable	$	9,218	9,775

See accompanying notes to consolidated financial statements.

(1) Organization

(a) Corporate Structure

PeaceHealth Networks is a Washington not-for-profit corporation, recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code, which is the sole corporate member of PeaceHealth, which is also a Washington not-for-profit corporation, recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code, with its corporate office located in Vancouver, Washington. PeaceHealth Networks is not affiliated with the Roman Catholic Church, currently has no operations, and currently holds no financial assets in its own name; however, it is the member corporation of PeaceHealth, which is a Private Pontifical Juridic Person according to the canon law of the Roman Catholic Church, does have extensive healthcare operations and holds substantial financial assets. PeaceHealth Networks and its associated entities are collectively referred to herein as "the Corporation." PeaceHealth Networks and PeaceHealth are the only members of the Corporation's obligated group. At June 30, 2022, the following regional healthcare delivery systems and operating divisions are components of PeaceHealth:

Northwest Network:
- PeaceHealth Ketchikan Medical Center
- PeaceHealth St. Joseph Medical Center
- Peace Island Medical Center
- PeaceHealth United General Medical Center

Columbia Network:
- PeaceHealth St. John Medical Center
- PeaceHealth Southwest Medical Center

Oregon West Network:
- PeaceHealth Sacred Heart Medical Center at University District
- PeaceHealth Sacred Heart Medical Center at RiverBend
- PeaceHealth Cottage Grove Community Medical Center
- PeaceHealth Peace Harbor Medical Center

Systemwide Organizations:
- PeaceHealth Medical Group

These regional healthcare delivery systems and operating divisions provide inpatient, outpatient, primary, and specialty care and home care services in Alaska, Washington, and Oregon. These divisions primarily operate in Ketchikan, Alaska; Bellingham, Friday Harbor, Sedro Woolley, Longview, and Vancouver, Washington; and Springfield, Eugene, Florence, and Cottage Grove, Oregon.

PeaceHealth Networks included the following controlled affiliates at June 30, 2022:

- PeaceHealth
- Health Ventures
- Pooled Income Funds (including Charitable Life Income Funds)
- PeaceHealth Southwest Medical Center Foundation
- PeaceHealth Networks On Demand
- PeaceHealth Ambulatory LLC
  - PeaceHealth Clinically Integrated Network, LLC
  - PeaceHealth Direct Contracting, LLC
- Clare Reassurance, Ltd.
- ClareSource, LLC (also known as Zoom Manufacturing LLC)

The consolidated financial statements include the accounts of the Corporation. All significant intercompany transactions and balances have been eliminated.

(2) Summary of Significant Accounting Policies

(a) 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of petty cash, cash in demand bank accounts, and all highly liquid debt instruments purchased with an original maturity of three months or less other than those amounts included in assets whose use is limited.

The Corporation maintains cash and cash equivalents on deposit at various institutions, which, at times, exceed the insured limits of the Federal Deposit Insurance Corporation. This exposes the Corporation to potential risk of loss in the event the institution becomes insolvent. Changes in cash equivalents held by investment managers are presented as investing activity on the consolidated statements of cash flows.

(c) Short-Term Investments

Short-term investments consist primarily of certificates of deposit, U.S. government, and other investment-grade securities. The maturities of these related securities can exceed one year. Management anticipates the securities will be liquidated within one year. Investment income or loss (including realized and unrealized gains and losses and interest and dividends) is included in the (deficit) excess of revenues over expenses.

(d) Inventory of Supplies

Inventory is valued on weighted average cost.

(Continued)

(e) Other Receivables

Other receivables primarily consist of amounts receivable from the Oregon Hospital Assessment Program and the Washington State Safety Net Assessment Program, amounts receivable from excess insurance carriers, and other miscellaneous amounts due.

(f) Assets Whose Use is Limited

Certain assets have been set aside by management of the Corporation for future capital improvements, self-insured liabilities, and other purposes, over which management retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Corporation have been reclassified as current in the consolidated balance sheets at June 30, 2022 and 2021. These items consist primarily of investments in marketable equity and fixed-income securities. Investment income or loss (including realized and unrealized gains and losses and interest and dividends) is included in the (deficit) excess of revenues over expenses.

The Corporation accounts for its investments on a trade-date basis. Investment sales and purchases initiated prior to the consolidated balance sheet date and settled subsequent to the consolidated balance sheet date result in amounts due from and to brokers. Changes in these assets and liabilities represent noncash investing activities excluded from the consolidated statements of cash flows. As of June 30, 2022, the Corporation recorded receivables of $98,927 for investments sold but not settled as pending trades receivable in the accompanying consolidated balance sheets. As of June 30, 2022 and 2021, the Corporation recorded payables of $25,621 and $15,114, respectively, for investments purchased but not settled as pending trades payable in the accompanying consolidated balance sheets.

(g) Liquidity

Cash and cash equivalents, accounts receivable, and short-term investments are the primary liquid resources used by the Corporation to meet expected expenditure needs within the next year. The Corporation has credit facility programs, as described in note 8, available to meet unanticipated liquidity needs. Although intended to satisfy long-term obligations, management estimates that approximately 73% and 80% of assets whose use is limited, as stated at June 30, 2022 and 2021, respectively, could be liquidated and be made available for general operating purposes within the next year if needed.

(h) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost at the date of acquisition or fair value at the date of donation. Improvements and replacements of plant and equipment are capitalized. Maintenance and repairs are expensed as they are incurred. When property, plant, and equipment are sold or retired, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is recorded.

The Corporation assesses potential impairment of its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the asset’s carrying value unlikely. An impairment loss is indicated when the sum of expected undiscounted future net cash flows is less than the carrying amount. The loss recognized is the difference between the fair value and the carrying amount. No impairment losses related to property, plant, and equipment were recognized during the years ended June 30, 2022 or 2021.

(In thousands)

(i) Depreciation and Amortization

Depreciation and amortization on property, plant, and equipment are computed using the straight-line method over the following estimated useful lives:

Land improvements	5–25 Years
Buildings and improvements	5–80 Years
Fixed equipment	10–75 Years
Leasehold improvements	Shorter of remaining length of the lease or useful life
Moveable equipment	3–30 Years

(j) Other Assets

Other assets include intangible assets, primarily trade names, and goodwill. Intangible assets with indefinite lives are evaluated annually for impairment. Impairment reviews are performed of the purchased intangible assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. There were no impairment losses recognized during the years ended June 30, 2022 or 2021.

(k) Other Long-Term Liabilities

Other long-term liabilities consist primarily of the estimated fair value associated with the Corporation's interest rate swaps of $73,074 and $135,752 at June 30, 2022 and 2021, respectively; the liability for the PeaceHealth SWHS Frozen DB Pension Plan of $0 and $3,470 at June 30, 2022 and 2021, respectively; the liability for the PeaceHealth's 457(b) and 457(f) postretirement savings plans of $76,594 and $84,764 at June 30, 2022 and 2021, respectively; and the long-term portion of the liability for the self-insurance programs of $51,256 and $58,380 at June 30, 2022 and 2021, respectively. The remaining balance of other long-term liabilities includes environmental liabilities, gift annuities, and deferred compensation plan liability.

Accounting for asset retirement and environmental obligations requires legal obligations associated with the retirement of long-lived assets to be recognized at fair value when incurred and capitalized as part of the related long-lived asset. In the absence of quoted market prices, the Corporation estimates the fair value of its asset retirement obligations using present value techniques, in which estimates of future cash flows associated with retirement activities are discounted using a credit-adjusted risk-free rate.

The Corporation has created several pooled income funds. Donors make a contribution and receive annuity payments based on the associated rental income. Upon the annuity termination, the remaining interest is transferred to the Corporation. At June 30, 2022 and 2021, the Corporation has recorded the present value of the annuity payments of $10,934 and $9,718, respectively, as part of other long-term liabilities. The discount rate ranged from 6.5% to 7.3% at June 30, 2022 and 6.4% to 7.2% at June 30, 2021.

(l) Net Assets

Net assets without donor restrictions are those that are not subject to donor-imposed stipulations. Net assets with donor restrictions are those whose use by the Corporation have been limited by donor-imposed restrictions to a specific time period, in perpetuity, and/or purpose.

Net assets with donor restrictions represent resources subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that are restricted by the donor for a particular purpose and that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. When specific donor restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and the consolidated statements of changes in net assets as net assets released from restrictions.

(m) Contributions and Grants

Contributions and grants are recognized as revenue upon receipt of the donor's pledge to contribute. Contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts pledged that are restricted by the donor for specific purposes are reported as net assets with donor restrictions. Unconditional promises to give that are silent as to the due date are presumed to be time restricted by the donor until received and are reported as net assets with donor restrictions.

A donor restriction expires when an unconditional promise with an implied time restriction is collected or when the purpose for the restriction is accomplished. Upon expiration, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statements of operations as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase in restricted support at the time of receipt and as net assets released from restrictions at the time restrictions aremet.

(n) Interest in Net Assets of Related Foundations

The Corporation recognizes its interest in its unconsolidated related foundations representing certain net assets that will ultimately benefit the Corporation. The Corporation records an asset on the consolidated balance sheets for its beneficial interest in net assets of related foundations. The Corporation recognizes changes in this beneficial interest in the consolidated statements of changes in net assets.

(o) Other Operating Revenue

Other operating revenue includes revenue from nonpatient care services, clinical space rental revenue, and other miscellaneous revenue. Such revenue is generally recognized at point of service for these transactions in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts* *with Customers*. Other operating revenue also includes contributions both unrestricted in nature and those released from restriction to support operating activities and COVID-19-related grant income.

(p) Nonrecurring Operating Loss

The Corporation recorded a nonrecurring operating loss in the amount of $16,494 in the year ended June 30, 2022. This settlement has been presented as nonrecurring in the operating section of the statement.

(q) Loss from Operations

Loss from operations excludes certain items that the Corporation deems outside the scope of its primary business, such as investment return, change in valuation of interest rate swaps, and other items.

(r) (Deficit) Excess of Revenues over Expenses

(Deficit) excess of revenues over expenses includes results from the Corporation's operating and nonoperating investing activities. Investment return includes interest income, dividends, and realized and unrealized investment gains and losses. Changes in net assets without donor restrictions not included in (deficit) excess of revenues over expenses include net assets released from restriction for the purchase of property, changes in the Corporation's interest in the net assets of noncontrolled foundations, and certain changes in funded status of the pension plan.

(s) Federal and State Income Taxes

PeaceHealth and PeaceHealth Networks have received determination letters from the Internal Revenue Service stating that they are exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code except for tax on unrelated business income. It is management's belief that none of its activities have produced material unrelated business income. The Corporation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that exceeds a 50% probability of being realized. Changes in recognition or measurement are reflected in the period in which the change in estimate occurs.

Certain affiliated entities included in the consolidated financial statements may be subject to taxation. The tax expense and related provision for these entities are not material to the consolidated financial statements.

(3) Revenue Recognition

(a) Patient Service Revenue

Patient service revenue relates to contracts with patients involving third-party payors where the Corporation has an obligation to perform healthcare services. This revenue is recorded at the amount due from patients, third-party payors, and others when the performance obligations are satisfied. The Corporation bases the implicit price concessions on historical collectibility data by payor using a portfolio approach to recognize the deductions netted against revenue when it is recognized.

(In thousands)

The Corporation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Corporation under these agreements includes prospectively determined rates per unit of service and discounts from established charges, as well as risk-sharing arrangements. Most arrangements provide for payment or reimbursement to the Corporation at amounts different than established rates. Contractual discounts represent the difference between established rates for services and amounts paid or reimbursed by these third-party payors. Risk-sharing arrangements include incentive payments for specific quality outcomes, effective management of costs, and other measures, and in some cases may result in a penalty.

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The Corporation maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies under its charity care policy. Estimated costs (based on the proportion of overall costs to charges foregone for charity care) for services and supplies furnished under the charity care policy for the years ended June 30, 2022 and 2021 were approximately $48,201 and $48,094, respectively.

(b) Disaggregation of Revenue

The Corporation earns the majority of its revenues from contracts with customers. Revenues and adjustments not related to contracts with customers are included in other revenue.

Total revenues from contracts with customers by payor are as follows for the years ended June 30:

		2022	2021
Medicare	$	1,299,990	1,183,168
Medicaid		384,013	355,896
Commercial and other		1,403,333	1,312,955
Private pay		16,008	44,944
Patient service revenue		3,103,344	2,896,963
Other revenue		187,273	115,685
Total revenue	$	3,290,617	3,012,648

Note 4 includes discussion of the federal stimulus payments received for COVID-19 included in other revenue.

(In thousands)

(c) Variable Consideration

Reimbursement for inpatient and outpatient services rendered to Medicare recipients has been made principally under a prospective pricing system. Services to Medicaid patients are also reimbursed based on a combination of prospectively determined rates and cost reimbursement methodology. Continuation of these reimbursement programs at the present level, and on the present basis, is dependent upon future policies of federal and state governmental agencies. The Corporation operates five critical access hospitals that are reimbursed based on costs for inpatient and outpatient services rendered to Medicare and Medicaid program beneficiaries. Interim reimbursement to critical access hospitals is based upon tentative rates and retroactive adjustment is made to actual cost during final settlement by either the Medicare fiscal intermediary or the applicable state's Medicaid agency.

Patient service revenue is recognized at the time services are provided to patients. Revenue is recorded in the amount which the Corporation expects to collect, which may include variable components. Variable consideration is included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with variable consideration is subsequently resolved. The Corporation has estimated payments for services rendered to Medicare and Medicaid patients during the year by applying the payment principles of the applicable governmental agencies and believes that an adequate provision has been made in the accompanying consolidated financial statements for final settlement. Estimates of final settlements due to and due from Medicare, Medicaid, and other third-party payors have been reflected net as reimbursement settlement payable in the accompanying consolidated balance sheets. Differences between the net amounts accrued and subsequent settlements are recorded in operations at the time of settlement. The net amount of adjustments from finalization and adjustment of prior years' cost reports and other third-party settlements resulted in a decrease in patient service revenue of approximately $2,335 and $4,454 in 2022 and 2021, respectively.

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

(d) Concentration of Credit Risk

There is a corresponding significant concentration of credit risk in net accounts receivable balances at June 30:

	2022	2021
Medicare	36 %	34 %
Medicaid	8	10
Commercial and other	48	48
Private pay	8	8
	100 %	100 %

(4) COVID-19

During the COVID-19 pandemic, federal, state, and local authorities undertook several actions designed to assist healthcare providers in providing care to COVID-19 and other patients and to mitigate the adverse economic impact of the COVID-19 pandemic. Legislative actions taken by the federal government included the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the Paycheck Protection Program and Health Care Enhancement Act, the Continuing Appropriations Act, 2021 and Other Extensions Act, and the Consolidated Appropriations Act, 2021 (collectively, the COVID Acts).

With the COVID Acts, the federal government authorized funding to be distributed through the Public Health and Social Services Emergency Fund (Provider Relief Fund or PRF). On June 2021, the U.S. Department of Health and Human Services (HHS) established new deadlines for when recipients of PRF grants must use the funding received, generally 12 to 18 months after receipt of the grant funds. HHS will recoup PRF grant funds not utilized by the established deadlines. The Corporation received approximately $212,370 in payments from the PRF of which $78,451 and $25,668 were recognized as other operating revenue for the years ended June 30, 2022 and 2021, respectively.

The Coronavirus Aid, Relief and Economic Security Act (the CARES Act) expanded the Medicare Accelerated and Advance Payment Program to increase cash flow to providers impacted by the COVID-19 pandemic. The Medicare Accelerated and Advanced Payment Program payments are advances that providers must repay. Providers are required to repay accelerated payments beginning one year after the payment was issued. After such one-year period, Medicare payments owed to providers will be recouped according to the repayment terms. The accelerated payments as of June 30, 2022 and 2021, respectively, were $89,419 and $271,389, which have been accrued on the consolidated balance sheets as a contract liability in the Medicare advance funding current liability and in other long-term liabilities.

The COVID Acts also permitted employers to defer payment of the 6.2% employer Social Security tax beginning March 27, 2020 through December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Corporation began deferring the employer portion of social security taxes in mid-April 2020. As of June 30, 2022 and 2021, respectively, the Corporation deferred $26,088 and $49,341 in social security taxes, which are included in accrued payroll, payroll taxes and employee benefits and other long-term liabilities in the accompanying consolidated balance sheets.

COVID volumes resulted in high levels of contract labor resulting in a negative impact on operations. The Corporation incurred temporary labor costs for the year ended June 30, 2022, and 2021 respectively of $305,957 and $81,425 which were reported in salaries and wages in the accompanying consolidated statements of operations.

(5) Fair Value of Financial Instruments

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

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

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. Investments valued utilizing net asset value (NAV) as a practical expedient are excluded from the hierarchy.

The fair value of cash equivalents and investments, other than those measured using NAV as a practical expedient for fair value, is estimated using quoted market prices multiplied by shares held or other observable inputs when quoted market prices are unavailable.

Registered mutual funds and money market funds are classified in Level 1 of the fair value hierarchy as defined above because their fair values are based on quoted prices for identical securities.

The common/collective trusts have been determined to trade daily at NAV as the trading price and are classified in Level 2 of the fair value hierarchy, as defined above.

The Corporation uses a practical expedient for the estimation of the fair value of investments in funds for which the investment does not have a readily determinable fair value. The practical expedient used by the Corporation is the NAV per share or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. Investments in hedge funds, real estate funds, and private equity investments are carried at estimated fair value using NAV as a practical expedient as determined by the external investment manager. Valuations provided by fund administrators consider variables, such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the exit price. Management reviews the valuations and assumptions provided by fund administrators for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of fair value. The initial valuation is adjusted when changes to inputs and assumptions are corroborated by evidence, such as transactions of similar securities; completed or pending third-party transactions in the underlying security or comparable entities; offerings in the capital markets; and changes in financial results, data, or cash flows. For positions that are not traded in active markets or are subject to notice provisions, valuations are adjusted to reflect such provisions, and such adjustments are generally based on available market evidence.

Other financial instruments of the Corporation include cash and cash equivalents and other receivables. The carrying amount of these instruments approximates fair value because these items mature in less than one year. The carrying amount of other long-term investments approximates fair value, excluding joint ventures, which are accounted for under the equity method of accounting.

(In thousands)

(6) Investments

The composition of short-term investments and assets whose use is limited carried at fair value on a recurring basis at June 30, 2022 is set forth in the following table:

		Fair value measurements at reporting date using		
	June 30, 2022	**Level 1**	**Level 2**	**Level 3**
Assets:				
Short-term investments:				
Cash equivalents	$ 83,964	83,964	—	—
Fixed income:				
Government, municipal, foreign, and other	124,201	63,697	60,504	—
Mortgage and asset-backed securities	63,664	—	63,664	—
Corporate obligations	218,725	—	218,725	—
Other short-term investments	7,136	77	7,059	—
Common/collective trusts	9,994	—	9,994	—
Total	507,684	147,738	359,946	—
Designated for capital acquisition:				
Cash equivalents	41,068	41,068	—	—
Fixed income:				
Government, municipal, foreign, and other	5,175	1,595	3,580	—
Mutual funds:				
Fixed income	71,314	71,314	—	—
Domestic equities	584,600	584,600	—	—
International equities	337,953	337,953	—	—
Other	3,612	3,612	—	—
Other long-term equity investments	27,706	27,706	—	—
Common/collective trusts	5,356	—	5,356	—
Hedge funds and other	28,819	—	28,819	—
Total	1,105,603	1,067,848	37,755	—
Funds designated for 457 plans:				
Mutual funds	76,594	76,594	—	—
Total	76,594	76,594	—	—
Total assets at fair value	1,689,881	$ 1,292,180	397,701	—

(In thousands)

		June 30, 2022	Fair value measurements at reporting date using Level 1	Level 2	Level 3
Investments measured at NAV:					
Hedge funds	$	248,351			
Private equity		279,165			
Real estate limited partnerships		104,300			
Total assets	$	2,321,697			
Liabilities:					
Interest rate swaps	$	73,074	—	73,074	—
Total liabilities	$	73,074	—	73,074	—

The composition of short-term investments and assets whose use is limited carried at fair value on a recurring basis at June 30, 2021 is set forth in the following table:

		June 30, 2021	Fair value measurements at reporting date using Level 1	Level 2	Level 3
Assets:					
Short-term investments:					
Cash equivalents	$	66,375	66,375	—	—
Fixed income:					
Government, municipal, foreign, and other		310,478	209,964	100,514	—
Mortgage and asset-backed securities		113,243	—	113,243	—
Corporate obligations		334,616	—	334,616	—
Other short-term investments		18,506	17,627	879	—
Common/collective trusts		16,934	—	16,934	—
Total		860,152	293,966	566,186	—
Designated for capital acquisition:					
Cash equivalents		109,030	109,030	—	—
Fixed income:					
Government, municipal, foreign, and other		90,577	—	90,577	—
Mutual funds:					
Fixed income		133,867	133,867	—	—
Domestic equities		776,589	776,589	—	—
International equities		502,119	502,119	—	—
Other		32,163	32,163	—	—

(In thousands)

		Fair value measurements at reporting date using		
	June 30, 2021	Level 1	Level 2	Level 3
Investments measured at NAV:				
Hedge funds	$ 227,386			
Private equity	185,742			
Real estate limited partnerships	70,964			
Total assets	$ 3,150,374			
Liabilities:				
Interest rate swaps	$ 135,752	—	135,752	—
Total liabilities	$ 135,752	—	135,752	—

The Corporation holds investments in private equity and distressed debt limited partnerships where NAV is used as a practical expedient to measure fair value at June 30, 2022 and 2021. These partnerships do not allow for periodic redemptions but rather liquidate upon the termination date as stated in the partnership agreement. Therefore, the private equity investments are considered illiquid investments. At June 30, 2022 and 2021, the Corporation held $279,165 and $185,742, respectively, of private equity and distressed debt limited partnerships that had termination dates that ranged from 2023 to 2033. As of June 30, 2022, the Corporation had a capital commitment of $1,899 to distressed debt and $128,645 to private equity.

	2022	2021	Unfunded commitments
Distressed debt	$ 232	535	1,899
Private equity	278,933	185,207	128,645
Total	$ 279,165	185,742	130,544

(In thousands)

The following table summarizes investments measured at fair value based on NAV per share as of June 30, 2022 and 2021 and their redemption restrictions:

	Fair value at June 30, 2022	Fair value at June 30, 2021	Lockup terms or redemption restrictions	Redemption frequency	Redemption frequency
Hedge funds	$ 38,126	42,806	None	Monthly	10 Days
Hedge funds	10,000	—	None	Monthly	15 Days
Hedge funds	22,241	20,543	None	Monthly	30 Days
Hedge funds	17,831	—	None	Monthly	60 Days
Hedge funds	13,961	17,212	Gate at 20% of total fundnet assets	Monthly	60 Days
Hedge funds	—	4,962	None	Monthly	90 Days
Hedge funds	20,414	52,134	None	Semimonthly	30 Days
Hedge funds	26,298	16,002	Gate at 50% of total fundnet assets	Quarterly	60 Days
Hedge funds	30,638	16,747	None	Quarterly	60 Days
Hedge funds	19,755	11,859	Gate at 10%	Quarterly	65 Days
Hedge funds	20,952	14,444	Withdrawal limits across four successive withdrawal dates	Quarterly	90 Days
Hedge funds	20,696	22,677	None	Quarterly	90 Days
Hedge funds	7,439	8,000	None	Quarterly	30 Days
Real estate	72,188	47,970	First business day of the calendar quarter with 45 days notice	Quarterly	45 Days
Real estate	29,980	22,327	Two-year lockup period	N/A	N/A
Real estate	2,132	667	None	N/A	N/A
	$ 352,651	298,350			

Other Investments

Health Ventures is a not-for-profit corporation that has entered into joint ventures to provide radiology, oncology, dialysis, and surgery services. PeaceHealth is the sole member of Health Ventures. Health Ventures is included in the consolidated financial statements but is not part of the obligated group. The majority of these joint ventures are accounted for under the equity method. Health Venture's ownership interest in the joint ventures ranged from approximately 25.2% to 50% at June 30, 2022 and 25.1% to 50% at June 30, 2021.

During the fiscal year ended June 30, 2022, PeaceHealth invested in Ardon Health, a pharmacy company, and Emerging Health, an infusion services company. PeaceHealth purchased 35% ownership interest in Ardon Health Holdings, which owns 100% of Ardon Health and Emerging Health. Ardon Health is held directly by PeaceHealth and is not part of Health Ventures.

As of June 30, 2022 and 2021, the carrying value of the joint ventures was approximately $58,658 and $27,998, respectively, and is recorded in investments in joint ventures and other on the consolidated balance sheets. Equity earnings from the joint ventures of $13,022 and $12,949 for the years ended June 30, 2022 and 2021, respectively, are included in other operating revenue. The unaudited assets, liabilities, and equity of these joint ventures accounted for under the equity method were $182,064,

(In thousands)

$45,239, and $136,825, respectively, at June 30, 2022 and $76,936, $13,902, and $63,034, respectively, at June 30, 2021.

At June 30, 2022, Health Ventures had a controlling ownership of 51.02% in Riverbend Ambulatory Surgery Center, which is consolidated within Health Ventures.

(7) Leases

The Corporation leases office space and clinic facilities under various noncancelable operating leases. The Corporation determines if an arrangement is a lease at inception of the contract. For leases with terms greater than 12 months, the Corporation records the related ROU asset and lease liability at the present value of the lease payments over the contract term using the Corporation's incremental borrowing rate. Right-of-use assets represent the Corporation's right to use the leased assets over the life of the lease and are derived from the lease liability, adjusted by any lease payments made prior to lease commencement, initial direct costs, and/or lease incentives. Building lease agreements generally require the Corporation to pay maintenance, repairs, and property taxes, which are variable based on actual costs incurred during each applicable period. Such costs are not included in the determination of the ROU asset or lease liability. Variable lease costs also include escalating rent payments that are not fixed at lease commencement but are based on an index that is determined in future periods over the lease term based on changes in the Consumer Price Index or other measures of cost inflation. Most leases include one or more options to renew the lease at the initial term, with renewal terms that generally extend the lease at the then market rate of rental payment. The exercise of lease renewal options is at the Corporation's sole discretion.

Rent expense for the leases was $43,668 and $41,089 for the fiscal years ended June 30, 2022 and 2021, respectively and is included in purchased services on the consolidated statements of operations and changes in net assets without restrictions.

The following table presents the components of the lease assets and lease liabilities related to their classification in the accompanying consolidated balance sheets as of June 30, 2022 and 2021:

	2022	2021
Operating leases:		
Operating lease right-of-use assets	$ 88,918	77,740
Short-term lease liabilities	$ 10,425	11,884
Long-term lease liabilities	82,817	69,940
	$ 93,242	81,824
Weighted average lease term − operating leases	9.3 years	8.3 years
Weighted average discount rate − operating leases	3.79 %	3.91 %

(In thousands)

Supplemental cash flow and other information related to leases as of and for the year ended June 30 are as follows:

		2022	2021
Operating cash flows (fixed payments)	$	14,768	14,350
Operating cash flows (liability reduction)		12,100	11,693
Operating cash flows from operating leases	$	26,868	26,043
Right-of-use assets obtained in exchange for operating lease obligations	$	28,096	70,296

The future minimum lease payments that are required under the above operating leases as of June 30, 2022 were as follows:

2023	$	17,740
2024		15,953
2025		14,533
2026		12,869
2027		11,367
Thereafter		38,851
		111,313
Less: amount of lease payments representing interest		(18,071)
Present value of minimum future lease payments		93,242
Less: current lease obligation		(10,425)
Long-term lease obligation	$	82,817

(In thousands)

(8) Long-Term Debt

Long-term debt at June 30 consisted of the following:

	Maturing through	Coupon rates 2022	Coupon rates 2021	2022	2021
Master trust debt:					
Fixed rate:					
2012 Direct Note Obligation to Bank of America	2022	2.32%	2.32%	$ 3,367	9,464
2013 Direct Note Obligation to Bank of America	2023	3.23%	3.23%	7,642	13,164
Series 2014 Oregon Bonds, Series A	2032	4.125%–5.00%	4.125%–5.00%	54,750	57,470
Series 2018 Taxable Bonds	2048	4.79%	4.79%	355,144	355,144
Series 2020 Taxable Bonds	2050	1.375%–3.218%	1.375%–3.218%	741,305	741,305
Total fixed rate				$ 1,162,208	1,176,547
Variable:					
Series 2013 Washington Bonds, Series A, variable interest rate (68%*1ml+ 70 bps)	2034	1.42%	0.80%	$ 41,965	43,465
Series 2018 Oregon Bonds, Series A variable interest rate (prevailing market rates)	2034	0.58%	0.05%	45,975	45,975
Series 2018 Oregon Bonds, Series B variable interest rate (prevailing market rates)	2034	0.52%	0.05%	100,000	100,000
Series 2018 Oregon Bonds, Series C variable interest rate (80%1ml+ 62 bps)	2047	1.47%	0.74%	75,000	75,000
Total variable rate				$ 262,940	264,440
Unpaid principal, master trust debt:				$ 1,425,148	1,440,987
Premium and other on long-term debt				(3,625)	(3,884)
Master trust debt, including premiums and discounts, net				1,421,523	1,437,103
Other long-term debt				42,220	10,230
Total long-term debt				1,463,743	1,447,333
Less amounts due within one year				(14,409)	(15,829)
Total long-term debt due after one year				$ 1,449,334	1,431,504

* ML as used in the table above is defined as monthly LIBOR

PeaceHealth Networks and PeaceHealth are the sole members of the PeaceHealth Obligated Group. The assets of the obligated group are available for the satisfaction of debts of PeaceHealth and PeaceHealth Networks under the terms of its master trust indenture.

(In thousands)

PeaceHealth issued debt in fiscal year 2021 to diversify its debt profile and raise funds for future capital needs. Series 2020 taxable fixed rate bonds with a par amount of $741,305 were issued for general corporate purposes and to refinance the Series 2011 Oregon Series B Direct Placement Bonds, Series 2014 Washington Series A Bonds and the 2013 Direct Note Obligation to Bank of America.

The Washington 2013(A) Direct Placement Bonds, 2018 Oregon Series A B Variable Rate Demand Bonds and the 2018 Oregon Series C Direct Placement Bonds have variable interest rates that may bear interest at a daily, weekly, 28 day, monthly, semiannual, or annual rates. The rate determination mode may be changed upon request of PeaceHealth and PeaceHealth Networks. The bonds are subject to optional redemption by PeaceHealth and PeaceHealth Networks, in whole or in part, at 100% of the principal amount plus accrued interest. The Washington 2013(A) bonds can be converted to publicly held variable rate demand bonds if PeaceHealth and PeaceHealth Networks chooses. The continuing covenant agreement for the Washington 2013(A) bonds requires a minimum two-year notice period prior to any anniversary of the date of issue occurring on or after February 27, 2016 to be given from the bank to PeaceHealth if the bank chooses to no longer hold the debt, provided that PeaceHealth is in compliance with financial covenants. Letters of credit supporting the 2018 Oregon Series A-B Bonds expire October 31, 2023 and 2024 and are extendable by the banks upon request from PeaceHealth and PeaceHealth Networks. The Washington 2013 A Direct Placement Bonds, the 2018 Oregon Series A-B Variable Rate Demand Bonds and the 2018 Oregon Series C Direct Placement Bonds are matched to fixed payor swaps ranging between 3.50% and 4.15% for approximately their par value, the notional amounts of swaps amortizing proportionately to the bonds.

Scheduled principal payments of long-term debt, excluding the premium on bonds, as due according to their original long-term amortization schedule and other debt according to its original maturity schedule for the next five years and thereafter are as follows:

	Long-term debt	Finance leases, line of credit, and other	Total
Year ending June 30:			
2023	$ 13,313	1,661	14,974
2024	6,895	1,711	8,606
2025	4,880	1,714	6,594
2026	343,369	1,714	345,083
2027	5,560	1,542	7,102
Thereafter	1,051,131	45,412	1,096,543
Total	$ 1,425,148	53,754	1,478,902
Less amounts representing interest		(11,534)	(11,534)
Less amounts representing line of credit		(27,450)	
Present value of net minimum capital lease payments		$ 14,770	
Total long-term debt			$ 1,467,368

The PeaceHealth Master Trust Indenture, the loan agreements, and other contractual documents under which bonds were issued include covenants, which, among others, obligate PeaceHealth and PeaceHealth Networks to maintain patient service revenue at levels sufficient to achieve specified debt service coverage ratios, meet certain financial tests before additional debt can be incurred, and meet certain financial tests before there can be any significant disposition of property.

During the year ended June 30, 2021, the Corporation increased the revolving line of credit with Bank of America to $125 million. The line of credit bears interest at BSBY Daily Floating Rate expiring in December 2025. At June 30, 2022, no amounts were drawn on the line of credit.

During the year ended June 30, 2021, the Corporation increased the revolving line of credit with U.S. Bank to $175 million. The line of credit bears interest at LIBOR expiring in December 2025. At June 30, 2022, $27,450 was drawn on the line of credit.

Cash paid for interest totaled approximately $41,603 and $36,846 for the years ended June 30, 2022 and 2021, respectively.

Deferred financing costs are amortized over the lives of the related debt issuances using the effective-interest method.

(9) Accounting for Derivative Instruments and Hedging Activities

In accordance with the policy adopted by the board of directors, the Corporation may use interest rate swap contracts to manage its net exposure to interest rate changes in attempting to reduce its overall cost of borrowing over time. Interest rate swap contracts generally involve the exchange of fixed and floating interest rate payments without the exchange of underlying principal (the swap of fixed or floating rates are on a notional amount). The Corporation accounts for its interest rate hedging transactions in accordance with Financial Accounting Standards Board (FASB) ASC Topic 815, *Derivatives and Hedging*. That standard requires that every derivative instrument be recorded on the balance sheet as either an asset or a liability measured at its estimated fair value. The interest rate swaps do not meet the criteria for hedge accounting and all changes in the valuation of the interest rate swaps are recognized in the consolidated statements of operations and changes in net assets without donor restrictions.

The Corporation has interest rate swap contracts outstanding as of June 30, 2022 and 2021, respectively, with a total current notional amount of approximately $335,650 and $337,175. The Corporation uses the fixed payor swaps to convert a portion of the outstanding variable rate bonds to fixed rates ranging from 3.50% to 4.15%. The fixed payor interest rate swaps are associated with the variable rate bonds but have not been integrated to any of the underlying debt for the purpose of hedge accounting.

Change in valuation of interest rate swaps consists of the noncash change in the liability primarily due to changes in market bond yields, as well as the cash payments and receipts associated with the swaps, and the amortization of the accumulated hedge effectiveness included in net assets. The noncash change in the fair value of the interest rate swaps was a decrease of $62,678 and $29,292 in the liability for the years ended June 30, 2022 and 2021, respectively. Net cash settlement cost for the interest rate swaps was $12,778 and $13,012, for the years ended June 30, 2022 and 2021, respectively. The amortization of the accumulated hedge effectiveness included in net assets was $79 for both years ended June 30, 2022 and 2021.

(In thousands)

Derivative instruments are recorded at fair value taking into consideration the Corporation's nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. The impact of taking into account the nonperformance risk on the estimated fair value of the interest rate swaps was a benefit of approximately $5,941 and $3,836, as of June 30, 2022 and 2021, respectively. Recording the interest rate swaps at fair value results in a total liability of $73,074 and $135,752 as of June 30, 2022 and 2021, respectively, in other long-term liabilities in the accompanying consolidated balance sheets rather than the $79,015 and $139,588 that would be paid if all of the swaps were terminated as of June 30, 2022 and 2021, respectively. The inputs used to determine the impact of the counterparty nonperformance risk are Level 2 inputs; as such, derivative liabilities have been recorded as Level 2 in the Corporation's disclosure of fair value instruments (note 6).

The Corporation currently has five swap counterparties, which minimize counterparty risk and collateral posting requirements. These swap agreements contain various credit thresholds that, if breached by the Corporation, would constitute an additional termination event whereby the swap counterparties could terminate the swap by either making a payment to, or receiving a payment from the Corporation, depending upon the termination value of the swaps as of the date of termination. The Corporation retains the right to terminate the swaps at any point, which would also require either making or receiving a payment depending on the termination value of the swap as of the termination date.

The following is a summary of the derivative instruments in place as of June 30, 2022 and 2021:

Maturity date	Current notional amounts at June 30, 2022	Current notional amounts at June 30, 2021	Counterparty	Credit value adjustment at June 30, 2022	Liability fair value at June 30, 2022	Credit value adjustment at June 30, 2021	Liability fair value at June 30, 2021
August 31, 2034	$ 45,000	45,000	Union Bank, N.A.	$ 255	(7,450)	208	(13,995)
May 24, 2047	75,000	75,000	Barclay Bank PLC	2,483	(21,929)	1,516	(40,247)
May 22, 2047	75,000	75,000	Mizuho Capital Markets LLC	2,483	(21,929)	1,516	(40,248)
August 01, 2034	50,000	50,000	U.S. Bank N.A.	300	(8,759)	242	(16,135)
August 01, 2034	50,000	50,000	U.S. Bank N.A.	300	(8,750)	242	(16,125)
September 01, 2034	40,650	42,175	Morgan Stanley Capital Services LLC	120	(4,257)	112	(9,002)
	$ 335,650	337,175		$ 5,941	(73,074)	3,836	(135,752)

(10) Benefit Plans

(a) Defined-Benefit Pension Plan

The Corporation sponsored a noncontributory, defined-benefit pension plan, the Southwest Washington Health System Retirement Plan, now known as PeaceHealth SWHS Frozen DB Pension Plan (the Plan) effective January 30, 2015, covering all employees at PeaceHealth Southwest Medical Center who meet requirements as specified in the Plan. The assets of the Plan were available to pay the benefits of all eligible employees of the Plan. The Plan had two benefit structures that include a cash balance and a final average pay structure. Effective December 31, 2010, the Plan was frozen. No new participants were admitted to the Plan after this date. This event did not terminate the Plan. Benefits earned before the plan was frozen continued to be paid prior to transferring the funds into annuities to prepare for termination.

A plan amendment was made effective December 31, 2016 to spin off a group of participants into PeaceHealth SWHS Frozen DB Pension (Plan II). As of that date, the Plan was renamed PeaceHealth SWHS Frozen DB Pension (Plan I). The PeaceHealth SWHS Plan I and Plan II were collectively referred as "the Plans." Plan provisions were identical between the Plans. The plan split was effective January 1, 2017.

A plan amendment was adopted effective December 31, 2018 to terminate the PeaceHealth SWHS Frozen DB Pension Plan II subject to approval by the Internal Revenue Service and the Pension Benefit Guaranty Corporation (PBGC). A favorable determination letter from the IRS was received for the plan termination. During the year ended June 30, 2021, the Plan purchased annuities and paid benefits to satisfy the benefit obligation. The termination resulted in the realization of $25,792 in losses for the year ended June 30, 2021, which are recognized in other income (expense) on the consolidated statements of operations and changes in net assets without donor restrictions. The final settlement of remaining assets and expenses occurred during fiscal year 2022.

A plan amendment was adopted effective December 31, 2020 to terminate the PeaceHealth SWHS Frozen DB Pension Plan I subject to approval by the Internal Revenue Service and the Pension Benefit Guaranty Corporation (PBGC). A favorable determination letter from the IRS was received for the plan termination. During the year ended June 30, 2022, the Plan purchased annuities and paid benefits to satisfy the benefit obligation. The termination resulted in the realization of $78,958 in losses, which are recognized in other income (expense) on the consolidated statements of operations and changes in net assets without donor restrictions. The final settlement of remaining assets and expenses will occur during fiscal year 2023.

(In thousands)

The following table sets forth disclosures related to the Plans in accordance with FASB ASC Paragraph 715-20-65, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of June 30, 2022 and 2021, measured as of January 1, 2022 and 2021, respectively:

		Year ended June 30	
		2022	**2021**
Change in project benefit obligation:			
Project benefit obligation (PBO) at beginning of period	$	192,701	276,859
Service cost		263	1,250
Interest cost		1,113	3,390
Settlement loss		11,069	—
Actuarial loss on PBO		(355)	8,335
Benefits and administrative expenses paid		(204,791)	(97,133)
Projected benefit obligation at June 30	$	—	192,701
Change in fair value of plan assets:			
Fair value of assets at beginning of period	$	189,231	212,027
Actual return on plan assets		2,626	10,781
Employer contribution		13,361	63,556
Benefits paid		(203,988)	(95,597)
Administrative expenses		(803)	(1,536)
Fair value of assets at June 30	$	427	189,231
Reconciliation of funded status:			
Funded status	$	427	(3,470)
Net amount recognized	$	427	(3,470)
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension liability	$	—	3,470
Accumulated change in net assets		26,659	23,190

(In thousands)

Net periodic benefit cost for the years ended June 30, 2022 and 2021 included the following components and is included in changes in net assets without donor restrictions:

		2022	2021
Service cost	$	263	1,250
Interest cost		1,113	3,390
Expected return on plan assets		(1,502)	(8,692)
Amortization of loss		79,112	7,870
Net periodic pension cost	$	78,986	3,818

(b) Assumptions

The Corporation used the following actuarial assumptions to determine its benefit obligations at June 30, 2021 with measurement date of June 30, 2021:

	2021
Discount rate	Plan I 2.06%

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

	2022	2021
Discount rate	Plan I 2.06%	Plan I 2.38%
Expected long-term rate of return on plan assets	—	Plan I 6.8%

This discount rate is based on a proprietary yield curve tool used by the Plans' actuary, which uses a composite of high-yield, investment-grade corporate bonds, and the projected payouts from the Plans to develop an equivalent yield rate to use in determining plan liabilities. For Plan I, the discount rate determined for the valuation at June 30, 2022, was reduced by 50 basis points as an approximation of the rates underlying the annuities to be purchased to settle the benefits for the Plan termination. For Plan II, the discount rate determined for the valuation at June 30, 2021, was reduced by 50 basis points as an approximation of the rates underlying the annuities to be purchased to settle the benefits for the Plan termination.

The expected long-term rate of return on plan assets was based on the asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. The actual return on pension plan assets was a gain of approximately 1.1% and 6.1% for Plan I during the year ended June 30, 2022 and 2021, respectively.

(In thousands)

In the calculation of pension plan expense, the expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a four-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns and expected returns based on the long-term rate of return assumptions.

(c) Pension Plan Assets

The asset allocation of the Corporation's pension plan at June 30, 2022 and 2021 is as follows:

		2022	2021
Cash equivalents	$	154	734
Debt securities		—	188,061
Others		273	436
Total	$	427	189,231

Pension plan assets are managed according to an investment policy adopted by the Plans' 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 Plans' 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 an asset allocation that includes equity securities, debt securities, and cash/other investments. In preparation for the termination of the Plan, management has updated the target allocation of investments to invest 100% of assets in debt securities and cash and cash equivalents.

In accordance with FASB ASC Topic 820, financial assets and financial liabilities measured at fair value are grouped in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels and the adoption of FASB ASC Topic 820 are further discussed in note 5.

The following is a description of the valuation methodologies used for plan assets measured at fair value:

- The fair value of equity and debt securities (mutual funds) are estimated using quoted market prices or other observable inputs when quoted market prices are unavailable.
- Private equity fund: Valued at the NAV as a practical expedient as supported by audited financial statements.

(In thousands)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while 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.

The following table sets forth by level, within the fair value hierarchy, the Plans' assets at fair value as of June 30, 2022:

Assets		Total fair value	Level 1	Level 2	Level 3
Cash equivalents	$	154	154	—	—
Total plan assets at fair value		154	154	—	—
Investments at NAV		273			
Total plan assets	$	427			

The following table sets forth by level, within the fair value hierarchy, the Plans' assets at fair value as of June 30, 2021:

Assets		Total fair value	Level 1	Level 2	Level 3
Cash equivalents	$	734	734	—	—
Debt securities		188,061	—	188,061	—
Total plan assets at fair value		188,795	734	188,061	—
Investments at NAV		436			
Total plan assets	$	189,231			

At June 30, 2022 and 2021, the Plans held $273 and $436, respectively, in a private equity investment that is not actively marketed on an open exchange. This investment consists of shares or units in an investment fund as opposed to direct interests in the fund's underlying holdings, which may be marketable. Due to the nature of this fund, the NAV is used as a practical expedient to measure fair value at June 30, 2022 and 2021. This private equity partnership does not allow for periodic redemptions but rather liquidates upon the termination date as stated in the partnership agreement. Therefore, the private equity investment is considered an illiquid investment. At June 30, 2022, the Corporation held $273 of a private equity limited partnership that had a termination date of June 2023.

(In thousands)

(11) Defined-Contribution Retirement Plans

PeaceHealth sponsors two defined-contribution retirement plans, the Southwest Washington Health System Retirement Plan and the PeaceHealth Plan. These plans cover substantially all employees of PeaceHealth meeting certain age and length of service requirements. Total defined-contribution retirement plan costs charged to operations were approximately $91,196 and $86,353 for the years ended June 30, 2022 and 2021, respectively, which are included in payroll taxes and benefits in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

PeaceHealth Deferred Compensation Plans

The estimated fair value associated with the plan assets of PeaceHealth's 457(b) and 457(f) postretirement savings plans, in the amount of approximately $76,594 and $84,764 at June 30, 2022 and 2021, respectively, is included in assets whose use is limited, cash equivalents and investments, with a corresponding amount included in other long-term liabilities. Contributions associated with these funds in 2022 and 2021 were $11,060 and $10,600, respectively, and are included in payroll taxes and benefits in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

(12) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

	2022	2021
Purchase of property, plant, and equipment	$ 72,938	3,079
Hospice and indigent care	18,445	15,398
Patient care	12,676	25,827
Children's Services	10,918	4,555
Training and education	2,341	2,688
Other	57,635	51,785
	$ 174,953	103,332

Approximately $4,254 and $4,237 was released from restriction for capital expenditures made during 2022 and 2021, respectively.

Charitable Gift Annuities

PeaceHealth has been granted a license by the state of Washington, Office of Insurance Commissioner, to issue Charitable Gift Annuities in support of its charitable activities. The Corporation has delegated all its charitable fundraising activities to several fundraising foundations whose net assets held for the beneficial interest of PeaceHealth are shown on the consolidated balance sheets of the Corporation. The liability for annuity contracts issued under the PeaceHealth license and the separately maintained reserve accounts are recorded on the books of PeaceHealth. As of June 30, 2022 and 2021, the following liabilities for annuity contracts issued under the PeaceHealth license and reserve account investments were recorded:

(In thousands)

		2022	2021
State of Washington gift annuity liabilities (other long-term liabilities)	$	1,538	443
Gift annuity reserve accounts (other assets whose use is limited, cash, and investments)		2,142	538

(13) Commitments and Contingent Liabilities

(a) Litigation

Various laws and regulations of federal, state, and local governments govern the healthcare industry. These laws and regulations are subject to ongoing government review and interpretation, as well as regulatory actions unknown or unasserted at this time. The Corporation is also involved in litigation and regulatory investigations arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation’s future financial position or results of operations.

(b) Collective Bargaining Agreements

Approximately 54% and 55% of the Corporation’s employees are covered under collective bargaining agreements, including nurses, professional employees, and service employees as of June 30, 2022 and 2021, respectively. The Corporation is currently negotiating certain expired and expiring collective bargaining agreements. The Corporation’s various collective bargaining agreements expire between August 2022 and June 2025.

(14) Insurance Coverages

In connection with the self-insurance program, the Corporation has accrued estimates for asserted and incurred but not reported claims, including both the expected liability under each claim and the cost to administer the claim. Self-insured professional and general liability retention was $7,000 and $5,000 per occurrence and $40,000 and $25,000 in aggregate in 2022 and 2021, respectively. Individual general and professional liability claims in excess of the above self-insured retention levels are insured through claims-made excess insurance policy.

The Corporation also self-insures all or a portion of liabilities for medical and dental benefit plans, unemployment, and workers’ compensation claims. Funding levels and liabilities are determined based on actuarial studies.

(In thousands)

Based on actuarial studies, the Corporation has recorded an undiscounted liability for all of the self-insurance programs of approximately $77,174 and $90,043 at June 30, 2022 and 2021, respectively. The liabilities are classified within other current liabilities and other long-term liabilities based on the historical amounts paid within one year. Total current amounts included in other current liabilities were approximately $25,303 and $31,663 at June 30, 2022 and 2021, respectively. Management has recorded amounts receivable from excess insurance carriers totaling approximately $2,624 and $4,349 as of June 30, 2022 and 2021, respectively, which is included in other receivables in the accompanying consolidated balance sheets.

The Corporation is a minority investor in American Excess Insurance Exchange (AEIX). AEIX is a risk retention group owned by a group of healthcare providers and provides them with excess professional liability insurance coverage. The Corporation accounts for its interest in AEIX on the equity method of accounting less mandatory withdrawal penalties and an estimated discount to present value. As of June 30, 2022 and 2021, the carrying value of AEIX was approximately $2,746 and $2,479, respectively, and is recorded in investments in joint ventures and other on the consolidated balance sheets. Investment income from AEIX is recorded as an adjustment to supplies and other operating expenses in the accompanying consolidated statements of operations and change in net assets without donor restrictions.

(15) Functional Expenses

The Corporation provides general healthcare services to residents within its geographic location. Operating expenses related to providing these services classified by their natural classification on the consolidated statements of operations and changes in unrestricted net assets are presented by their functional classifications as follows for the year ended June 30:

		2022	
	Patient care	**General and administrative**	**Total expenses**
Salaries and wages	$ 1,769,529	106,972	1,876,501
Payroll taxes and benefits	164,277	143,821	308,098
Supplies	515,324	6,470	521,794
Purchased services	377,179	76,281	453,460
Other	211,211	6,048	217,259
Depreciation and amortization	114,089	34,880	148,969
Interest and amortization of deferred financing costs	694	41,452	42,146
Total	$ 3,152,303	415,924	3,568,227

(In thousands)

	2021		
	Patient care	**General and administrative**	**Total expenses**
Salaries and wages	$ 1,457,731	92,381	1,550,112
Payroll taxes and benefits	159,260	141,563	300,823
Supplies	463,846	888	464,734
Purchased services	342,236	78,284	420,520
Other	186,256	10,185	196,441
Depreciation and amortization	112,493	38,175	150,668
Interest and amortization of deferred financing costs	830	38,083	38,913
Total	$ 2,722,652	399,559	3,122,211

(16) Subsequent Events

In connection with the preparation of the consolidated financial statements in accordance with FASB ASC Topic 855, *Subsequent Events*, the Corporation has evaluated subsequent events through September 29, 2022 which is the date the consolidated financial statements were issued.