



TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Information

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

TUALITY HEALTHCARE AND SUBSIDIARIES

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KPMG LLP
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1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Directors
Tuality Healthcare:

Opinion

We have audited the consolidated financial statements of Tuality Healthcare and its subsidiaries (the Company), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note 1q to the consolidated financial statements, on July 1, 2022, the Company adopted new accounting guidance for leases due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material



misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

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

KPMG LLP

Portland, Oregon
October 20, 2023

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2023 and 2022

Assets	2023	2022
Current assets:		
Cash and cash equivalents	\$ 7,943,630	21,847,203
Short-term investments	392,908	630,499
Patient accounts receivable, net	44,536,806	40,487,504
Other receivables	6,495,959	5,646,723
Supplies inventory	5,910,506	4,873,333
Prepaid expenses and other	2,908,423	2,096,483
Estimated receivables for Medicare and Medicaid settlements	—	454,030
Current portion of assets whose use is limited	1,051,532	1,033,408
Total current assets	<u>69,239,764</u>	<u>77,069,183</u>
Assets whose use is limited:		
Board-designated funds	31,777,224	33,040,547
Pending trade receivable	—	1,909,214
Donor-restricted – specific purpose	6,146,507	6,095,571
Donor-restricted – endowment	2,759,066	2,854,961
Required for current liabilities	<u>(1,051,532)</u>	<u>(1,033,408)</u>
Total assets whose use is limited	<u>39,631,265</u>	<u>42,866,885</u>
Property and equipment, net of accumulated depreciation and amortization	57,682,500	62,212,472
Lease right-of-use asset	6,716,885	—
Other assets	<u>7,799,858</u>	<u>7,413,502</u>
Total assets	<u>\$ 181,070,272</u>	<u>189,562,042</u>

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2023 and 2022

Liabilities and Net Assets	2023	2022
Current liabilities:		
Accounts payable	\$ 8,968,201	11,417,956
Accrued payroll and employee benefits	12,448,244	14,771,766
Due to related party	10,681,488	24,619,859
Deferred revenue	—	2,672,006
Estimated liabilities for Medicare and Medicaid settlements	5,325,183	—
Long-term debt due within one year	1,122,249	1,089,901
Operating leases – current liability	1,501,511	—
Accrued bond interest payable	71,532	78,408
Total current liabilities	<u>40,118,408</u>	<u>54,649,896</u>
Long-term liabilities:		
Long-term debt, net of amount due within one year	8,850,491	9,958,578
Operating leases – long term liability	5,403,252	—
Liability for pension benefits	21,692,829	29,679,508
Other long-term liabilities	24,416,987	23,872,819
Total long-term liabilities	<u>60,363,559</u>	<u>63,510,905</u>
Total liabilities	<u>100,481,967</u>	<u>118,160,801</u>
Net assets:		
Net assets without donor restrictions	72,079,533	62,320,184
Net assets with donor restrictions	8,508,772	9,081,057
Total net assets	<u>80,588,305</u>	<u>71,401,241</u>
Total liabilities and net assets	<u>\$ 181,070,272</u>	<u>189,562,042</u>

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net patient service revenue	\$ 270,346,548	261,997,829
Other revenue:		
OHSU support	22,812,752	11,050,787
Federal stimulus funding (FEMA)	1,802,354	—
Other revenue	<u>8,614,097</u>	<u>15,689,075</u>
Total other revenue	<u>33,229,203</u>	<u>26,739,862</u>
Total revenue	<u>303,575,751</u>	<u>288,737,691</u>
Operating expenses:		
Salaries and wages	108,774,746	100,417,369
Employee benefits	29,156,059	24,196,241
Supplies and other expenses	113,133,660	112,716,670
Professional fees	44,124,719	43,131,160
Depreciation and amortization	7,641,456	7,456,094
Interest	<u>723,927</u>	<u>706,870</u>
Total operating expenses	<u>303,554,567</u>	<u>288,624,404</u>
Income from operations	<u>21,184</u>	<u>113,287</u>
Other non-operating income/(loss):		
Realized income (loss) on investments whose use is limited by board designation	(55,382)	255,671
Gain on investments in affiliated companies	467,923	610,348
Gain/(loss) on disposal of property and equipment	2,086	(71,935)
Change in net unrealized gains/(losses) on investments	<u>1,810,190</u>	<u>(6,624,385)</u>
Total other income/(loss)	<u>2,224,817</u>	<u>(5,830,301)</u>
Excess/(deficit) of revenue over expenses	2,246,001	(5,717,014)
Contributions for property and equipment acquisition	27,294	24,917
Pension-related changes	<u>7,486,054</u>	<u>11,436,545</u>
Increase in net assets without donor restrictions	<u>\$ 9,759,349</u>	<u>5,744,448</u>

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net assets without donor restrictions:		
Excess/deficit of revenue over expenses	\$ 2,246,001	(5,717,014)
Contributions for property and equipment acquisition	27,294	24,917
Pension-related changes	<u>7,486,054</u>	<u>11,436,545</u>
Increase in net assets without donor restrictions	<u>9,759,349</u>	<u>5,744,448</u>
Net assets with donor restrictions:		
Gifts, grants, and bequests	1,159,001	1,780,519
Investment income (loss)	346,401	(1,067,426)
Net assets released from restrictions	<u>(2,077,687)</u>	<u>(1,386,251)</u>
Decrease in net assets with donor restrictions	<u>(572,285)</u>	<u>(673,158)</u>
Change in net assets	9,187,064	5,071,290
Net assets, beginning of year	<u>71,401,241</u>	<u>66,329,951</u>
Net assets, end of year	<u><u>\$ 80,588,305</u></u>	<u><u>71,401,241</u></u>

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 9,187,064	5,071,290
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,641,456	7,510,769
Net realized and unrealized (gain) loss on investments	(2,002,180)	7,436,140
Gain on investment in affiliated companies	(467,923)	(610,348)
(Gain) loss on disposal of property and equipment	(2,086)	71,935
Restricted contributions	(1,159,001)	(1,780,519)
Cash distributed from corporate joint venture	485,200	721,300
Changes in assets and liabilities that provided cash:		
Accounts receivable	(4,898,538)	(649,008)
Accounts due to/from related party	(13,938,371)	17,820,715
Inventories	(1,037,173)	29,180
Prepaid expenses and other	(857,940)	510,742
Accounts payable	(1,978,812)	(1,143,748)
Accrued payroll and employee benefits	(2,323,522)	1,295,331
Long-term pension liability	(7,986,679)	(12,544,558)
Estimated liabilities for Medicare and Medicaid settlements	5,779,213	(877,200)
Deferred revenue	(2,672,006)	(10,434,752)
Accrued bond interest	(6,876)	(6,660)
Net cash provided by (used in) operating activities	<u>(16,238,174)</u>	<u>12,420,609</u>
Cash flows from investing activities:		
Purchase of property and equipment	(2,527,341)	(6,896,183)
Proceeds from sales of securities	16,770,486	5,926,303
Purchases of securities	(11,991,806)	(6,158,583)
Net cash provided by (used in) investing activities	<u>2,251,339</u>	<u>(7,128,463)</u>
Cash flows from financing activities:		
Proceeds from restricted contributions	1,159,001	1,780,519
Principal payments on long-term debt	(1,075,739)	(1,037,696)
Net cash provided by financing activities	<u>83,262</u>	<u>742,823</u>
(Decrease) increase in cash equivalents	(13,903,573)	6,034,969
Cash and cash equivalents beginning of year	<u>21,847,203</u>	<u>15,812,234</u>
Cash and cash equivalents end of year	<u>\$ 7,943,630</u>	<u>21,847,203</u>
Supplementary disclosures of cash flow information:		
Cash paid during the year for interest	\$ 702,251	683,276
Change in accounts payable related to capital projects	(900,941)	515,512
Supplementary disclosure of non-cash information:		
Assets recorded upon adoption of new accounting standard	6,499,724	—
Liabilities recorded upon adoption of new accounting standard	(6,653,164)	—

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(1) Summary of Organization and Accounting Policies

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

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

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

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

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

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

(a) Principles of Consolidation

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

(b) Use of Estimates

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

(c) Subsequent Events

Management has evaluated subsequent events through October 20, 2023, the date the consolidated financial statements were available to be issued.

(d) Patient Accounts Receivable

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

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

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

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

(e) Due to/from Related Party

As of June 30, 2023 and 2022, respectively, Tuality recorded amounts due to related party of \$10,681,488 and \$24,398,454 for OHSU operating costs reimbursement as well as operating and cash flow support.

(f) Net Patient Service Revenue

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

(g) Cash and Cash Equivalents

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

(h) Investments and Assets Whose Use is Limited

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

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

(i) Supplies Inventory

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

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(j) Property and Equipment

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

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

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

(k) Federal and State Income Taxes

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

U.S. generally accepted accounting principles require management of Tuality to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the organization and has concluded that as of June 30, 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. Tuality is subject to routine audits by taxing jurisdictions but no audits are currently in process.

(l) Estimated Malpractice Claims

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

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(m) Net Assets with Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
Net assets with donor restrictions:		
Education	\$ 6,901,867	7,390,633
Patient care	<u>1,606,905</u>	<u>1,690,424</u>
	<u>\$ 8,508,772</u>	<u>9,081,057</u>

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

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

(n) Income from Operations

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

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

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

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(p) OHSU Affiliation

Tuality is affiliated with OHSU through the execution of a Management Agreement (the Agreement) between the organizations. Under the Agreement, OHSU agrees to oversee the unified and integrated clinical enterprises of OHSU and Tuality as a single, integrated economic unit. OHSU and Tuality remain as separate entities, own their own assets, and continue to be the licensed operators of their own facilities. Per the Agreement, OHSU has guaranteed Tuality operating income and operating cash flow support. Operating income support amounted to \$22,812,752 and \$11,050,787 for the years ending June 30, 2023 and 2022, respectively. Operating cash flow support is in the form of a loan with the balance of \$19,590,794 as of both June 30, 2023 and 2022 and is included in other long-term liabilities in the consolidated balance sheets. As of June 30, 2023, there exists on Tuality's financial statements a due to related party payable for operating services and operating support of \$10,681,488 and \$24,619,859 for June 30, 2023 and 2022, respectively.

As a related party, Tuality utilized \$60,400,203 and \$56,026,157 of services during the years ended June 30, 2023 and 2022, respectively, from OHSU, primarily related to providers and their support components, including specialty services that were not available to the community in the past, IT services and access to technology, and revenue cycle services including electronic medical records. These expenses primarily consist of professional fees and purchased services.

(q) New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. The ASU applies to all leases of tangible assets and the new standard was adopted by Tuality on July 1, 2022. As of July 1, 2022 the adoption of this new standard resulted in the recording of \$6,499,724 in right-of-use assets and \$6,643,164 in liabilities in the consolidated balance sheet.

(2) Investments in Unconsolidated Affiliates and Investment Income

(a) Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates consisted of the following at June 30, 2023 and 2022:

June 30, 2023				
	Cost or equity	Percentage of ownership	Investments	Income/(loss)
Raines Dialysis Center	Equity	20 %	\$ 495,833	171,899
Mountain States Healthcare	Cost	5	310,181	—
Noble Woods	Equity	22	151,273	296,024
West Coast Sourcing	Cost	1	5,000	—
			\$ 962,287	467,923

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

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

(b) Investment Income

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

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

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

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Changes in endowment net assets for the years ended June 30, 2023 and 2022 are as follows:

	Net assets with donor restrictions
Balance as of June 30, 2021	\$ 5,399,726
Investment loss	(396,614)
Contributions	105
Appropriated for expenditure	(284,434)
Balance as of June 30, 2022	4,718,783
Investment gain	318,083
Contributions	35,234
Appropriated for expenditure	(333,449)
Balance as of June 30, 2023	\$ 4,738,651

(3) Liquidity and Availability

As of June 30, 2023, Tuality Healthcare has working capital of \$29,382,459.

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

	2023
Cash and cash equivalents	\$ 7,943,630
Short term investments	392,908
Patient accounts receivable, net	44,536,806
Other receivables	6,495,959
Board designated funds	31,777,224
	\$ 91,146,527

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

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

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(4) Fair Value Measurements

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

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

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

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The amounts in the following tables are comprised of assets whose use is limited, short term investments, and investments associated with deferred compensation which are included in other assets in the consolidated balance sheets.

Fair values of assets measured on a recurring basis at June 30, 2023 are as follows:

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Fair value			
Short term investments:				
Cash equivalents	\$ 11,002	11,002	—	—
Equity securities	187,024	187,024	—	—
Fixed income securities	194,882	—	194,882	—
Assets whose use is limited				
board designated funds:				
Cash equivalents	1,133,632	1,133,632	—	—
Equity securities	10,138,088	10,138,088	—	—
Fixed income mutual funds	16,142,471	16,142,471	—	—

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Fair value measurements at reporting date using				
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Donor restricted:				
Cash equivalents	\$ 54,151	54,151	—	—
Equity securities	6,269,177	6,269,177	—	—
Fixed income securities	2,582,245	—	2,582,245	—
Deferred compensation plan:				
Cash equivalents	762,760	762,760	—	—
Equity securities	1,349,499	1,349,499	—	—
Fixed income securities	821,434	821,434	—	—
	39,646,365	\$ 36,869,238	2,777,127	—
Investments valued at NAV as a practical expedient	4,363,033			
Total	\$ 44,009,398			

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

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

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Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Fair value			
Donor restricted:				
Cash equivalents	\$ 268,516	268,516	—	—
Equity securities	4,475,266	4,475,266	—	—
Fixed income securities	4,206,750	—	4,206,750	—
Deferred compensation plan:				
Cash equivalents	702,107	702,107	—	—
Equity securities	1,103,311	1,103,311	—	—
Fixed income securities	702,107	702,107	—	—
	40,618,063	\$ 36,114,978	4,503,085	—
Investments valued at NAV as a practical expedient	4,511,040			
Total	\$ 45,129,103			

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

		June 30		Redemption frequency	Redemption notice period
		2023	2022		
Limited partnerships	\$	4,363,033	4,511,040	Monthly to annual	45–185 days

(5) Community Benefits

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

- Free and/or subsidized care

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

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

Through its hospitals, Tuality provides care to patients covered by governmental programs, such as Medicare and Medicaid, which reimburse at levels below the actual cost to provide this care. The amount of unpaid cost due to inadequate reimbursement under these programs was approximately \$72,915,592 and \$56,804,305 during the years ended June 30, 2023 and 2022, respectively. Tuality also provides additional free or discounted care under its charity care policy. The cost of care provided under Tuality's charity policy was estimated to be \$3,757,815 and \$6,131,424 during the years ended June 30, 2023 and 2022, respectively. The cost of charity care provided is based on Tuality's estimated relationship of cost to charges.

(6) Net Patient Service Revenue and Patient Receivables

Management evaluates revenue by nature in the following categories for the year ended June 30, 2023:

	<u>2023</u>	<u>2022</u>
Net Patient service revenue by payor:		
Medicare	\$ 101,603,055	112,605,688
Medicaid	63,870,974	41,635,433
Commercial and Managed Care	102,446,874	102,979,645
Other	2,425,645	4,777,063
	<u>\$ 270,346,548</u>	<u>261,997,829</u>
Revenue by major line of business:		
Inpatient revenue, net	\$ 93,900,141	109,189,252
Outpatient revenue, net	176,446,407	152,808,577
CARES revenue	—	2,384,777
OHSU support	22,812,752	11,050,787
Federal Stimulus Funding (FEMA)	1,802,354	—
Other revenue	8,614,097	13,304,298
	<u>\$ 303,575,751</u>	<u>288,737,691</u>

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

(a) Medicare

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

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

(b) Medicaid

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

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

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

There were no material effects on net patient services revenue for the years ended June 30, 2023 and 2022 due to changes in prior year estimated Medicare and Medicaid settlements.

(c) Other

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

(7) Property and Equipment

A summary of property and equipment at June 30, 2023 and 2022 follows:

	<u>2023</u>	<u>2022</u>
Land and land improvements	\$ 8,044,601	8,044,601
Building and fixed equipment	117,918,857	114,345,081
Moveable equipment	77,365,195	74,352,702
Equipment under capital leases	<u>7,117,040</u>	<u>7,117,040</u>
	210,445,693	203,859,424
Less accumulated depreciation and amortization	<u>(159,015,411)</u>	<u>(151,698,539)</u>
	51,430,282	52,160,885
Construction in progress	<u>6,252,218</u>	<u>10,051,587</u>
Property and equipment, net	<u><u>\$ 57,682,500</u></u>	<u><u>62,212,472</u></u>

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(8) Long-Term Debt

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

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

Under the Original Master Indenture, as amended, Tuality agreed to a number of covenants and conditions, one of which was not met as of June 30, 2023. Management is following guidance within the Original Master Indenture to address the current and projected days cash on hand not meeting the required threshold and is working with a consultant to advise on performance improvement initiatives. Lack of compliance with the days cash on hand covenant does not constitute an event of default and therefore the bonds continue to be classified as long-term.

Long-term debt at June 30, 2023 and 2022 consists of the following:

	<u>2023</u>	<u>2022</u>
2015 series bonds, variable annual payments, including principal and interest at a rate of 2.88% from \$1,262,700 to \$1,270,600, beginning October 2016 to October 2031	\$ 9,805,217	10,745,415
Present value of net minimum finance lease obligations	<u>167,523</u>	<u>303,064</u>
Total debt	9,972,740	11,048,479
Less amounts due within one year	<u>(1,122,249)</u>	<u>(1,089,901)</u>
Long term debt, due after one year	<u>\$ 8,850,491</u>	<u>9,958,578</u>

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

	<u>Long term debt</u>	<u>Finance leases</u>	<u>Total</u>
Fiscal years ending:			
2024	\$ 980,000	142,249	1,122,249
2025	995,198	25,274	1,020,472
2026	1,025,198	—	1,025,198
2027	1,055,198	—	1,055,198
2028	1,085,198	—	1,085,198
Thereafter	4,664,425	—	4,664,425
	<u>\$ 9,805,217</u>	<u>167,523</u>	<u>9,972,740</u>

(9) Operating Leases

Tuality enters into operating leases primarily for buildings and equipment. For operating leases with terms greater than 12 months, Tuality records the related right-of-use (ROU) asset and liability at the present value of the lease payments over the contract term using the Tuality's incremental borrowing rate. Building lease agreements generally require Tuality 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. Tuality has elected the practical expedient to not separate lease components from non-lease components for its operating leases.

Tuality leases equipment and buildings under non-cancelable operating leases, which expire at various dates between June 2023 and 2032.

The components of lease cost are as follows for the year ended June 30, 2023:

Operating lease cost:	
Fixed lease expense	\$ 4,628,747
Variable lease expense	<u>207,105</u>
Total operating lease cost	<u>\$ 4,835,852</u>

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Supplemental cash flow and other information related to leases upon the adoption as of July 1, 2022 are as follows:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 144,272
Additions to ROU assets obtained from operating leases	6,499,724

Weighted average remaining lease term (in years):

Operating leases	5
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Weighted average discount rate:

Operating leases	6.1 %
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Commitments related to noncancelable operating and finance leases for each of the next five years and thereafter as of June 30, 2023 are as follows:

	Operating leases
2024	\$ 1,868,074
2025	1,554,356
2026	1,047,886
2027	1,074,839
2028	986,451
Thereafter	1,675,679
	<hr/> 8,207,285
Less imputed interest	1,302,522
	<hr/> 6,904,763
Total lease liabilities	
	6,904,763
Less current portion	1,501,511
	<hr/> 5,403,252
Total lease obligation	<u><u>\$ 5,403,252</u></u>

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Future minimum lease commitments under noncancelable operating leases for the next five years and thereafter as of Jun 30, 2022 prior to the adoption of ASU 2016-02, were as follows:

Fiscal year:	
2023	\$ 3,977,238
2024	1,291,884
2025	989,842
2026	765,182
2027	788,137
Thereafter	<u>2,500,158</u>
	<u>\$ 10,312,441</u>

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

(10) Retirement Plans

Tuality has two defined-benefit pension plans covering its employees. Tuality makes contributions to the plan in amounts sufficient to fund the plan's current service cost and the actuarially computed past service costs over a period of 10 years. The defined-benefit pension plan was frozen in 2016. In conjunction with the freeze, the plan is now closed to new entrants and compensation no longer accrues. Current participants who are not yet vested will continue to accrue accumulated years of service for hours worked to become vested if they continue working for Tuality.

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

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

Tuality also has a 457(b) salary deferral plan for key executives. Tuality reports assets and liabilities of equal amounts attributable to the amount deferred and the related investment earnings. Tuality's invested assets of deferred compensation consist of mutual funds and fixed income. The balance in the deferred compensation plan at June 30, 2023 and 2022 was \$2,933,693 and \$2,507,525, respectively, and is included in both other assets and other long-term liabilities in the accompanying consolidated balance sheets.

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Notes to Consolidated Financial Statements

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The following table sets forth the funded status of the defined-benefit plans and amounts recognized in Tuality's consolidated balance sheets as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Change in benefit obligation:		
Projected benefit obligation at July 1	\$ 114,173,706	144,927,929
Service cost	1,858,882	1,840,047
Interest cost	5,107,934	3,909,168
Actuarial gain	(6,565,289)	(28,755,231)
Expenses paid	(1,811,759)	(1,666,380)
Benefits paid	(5,790,741)	(6,081,827)
Projected benefit obligation at June 30	<u>106,972,733</u>	<u>114,173,706</u>
Change in plan assets:		
Fair value of assets at July 1	84,494,198	102,703,863
Actual return on plan assets	5,673,206	(12,309,458)
Employer contribution	2,715,000	1,848,000
Expenses paid	(1,811,759)	(1,666,380)
Benefits paid	(5,790,741)	(6,081,827)
Fair value of assets at June 30	<u>85,279,904</u>	<u>84,494,198</u>
Funded status	<u>\$ (21,692,829)</u>	<u>(29,679,508)</u>

Amounts recognized in the consolidated balance sheets and the statement of changes in net assets as of and for the years ended June 30, 2023 and 2022 consist of:

	<u>2023</u>	<u>2022</u>
Liability for pension benefits	\$ 21,692,829	29,679,508
Pension-related changes	7,486,054	11,436,545
Net periodic pension cost	2,214,375	738,987

Amounts recognized as changes in net assets without donor restrictions but not yet included in net periodic pension cost as of June 30, 2023 and 2022 consist of:

	<u>2023</u>	<u>2022</u>
Net loss	\$ 45,694,799	53,455,566
Prior service cost	—	(274,713)
Total	<u>\$ 45,694,799</u>	<u>53,180,853</u>

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The accumulated benefit obligation for the defined-benefit plans was \$106,972,733 and \$114,173,706 at June 30, 2023 and 2022, respectively.

	Year ended June 30	
	2023	2022
Components of net periodic benefit cost:		
Service cost	\$ 1,858,882	1,840,047
Interest cost	5,107,934	3,909,168
Expected return on plan assets	(5,790,058)	(6,159,268)
Amortization of prior service cost	(274,713)	(1,098,847)
Amortization of net actuarial gain	1,312,330	2,247,887
Net periodic pension cost	<u>\$ 2,214,375</u>	<u>738,987</u>

The estimated net loss and prior service cost that will be amortized from changes in net assets without donor restrictions into net periodic pension cost over the next fiscal year are \$1,208,193 and \$1,312,330, respectively.

(a) Assumptions

	June 30	
	2023	2022
Weighted average assumptions used to determine benefit obligations at June 30:		
Discount rate	5.21 %	4.61 %
Weighted average assumptions used to determine net periodic benefit cost for period ended:		
Discount rate	4.61 %	2.76 %
Expected long-term return on plan assets	6.40	6.75

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

(b) Plan Assets

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

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

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

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

(c) Cash Flows

Tuality expects to contribute \$3,211,000 to its pension plans in fiscal year 2024.

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

Fiscal year ending June 30:	
2024	\$ 7,050,264
2025	6,677,026
2026	6,696,881
2027	6,976,029
2028	7,273,748
Following five years	35,825,239

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The following table presents Tuality's pension plan assets measured at fair value at June 30, 2023:

Fair value measurements at reporting date using				
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Fair value			
Interest bearing cash	\$ 8,232,536	8,232,536	—	—
Corporate bonds and debentures	17,024,866	—	17,024,866	—
Registered investment companies:				
Fixed income	10,251,118	10,251,118	—	—
Large cap	31,936,826	31,936,826	—	—
Mid cap	619,923	619,923	—	—
Small cap	9,906,720	9,906,720	—	—
	77,971,989	\$ 60,947,123	17,024,866	—
Investments valued at NAV as a practical expedient	7,307,915			
Total	\$ 85,279,904			

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

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

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

		June 30		Redemption frequency	Redemption notice period
		2023	2022		
Alternative investments	\$	7,307,915	8,290,345	Quarterly	30–90 Days

(d) Healthcare Performance Retirement Plan

In addition, during 1994, Tuality established the Tuality Healthcare Performance Retirement Plan under which eligible employees may defer a portion of their annual compensation pursuant to Sections 403(b) and 401(k) of the Internal Revenue Code. Tuality matches a portion of employee contributions on a discretionary basis. Tuality made contributions of \$3,101,844 and \$2,128,114 for the years ended June 30, 2023 and 2022, respectively.

(11) Functional Expenses

Tuality provides general healthcare services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended June 30, 2023 and 2022:

Year ended June 30, 2023				
	Tuality program service	Tuality management and general	Affiliated entities	Total
Salaries and wages	\$ 105,738,296	3,036,450	—	108,774,746
Employee benefits	28,406,056	750,003	—	29,156,059
Supplies and other expense	107,538,120	3,046,140	2,549,400	113,133,660
Professional fees	44,048,719	76,000	—	44,124,719
Depreciation and amortization	7,445,083	—	196,373	7,641,456
Interest	723,927	—	—	723,927
Total	\$ 293,900,201	6,908,593	2,745,773	303,554,567

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

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

(12) Concentrations of Credit Risk

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

(a) Cash

Tuality maintains its cash balances at several financial institutions located in Washington County, Oregon. As of June 30, 2023, accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2023, Tuality's uninsured cash balances totaled \$3,884,379.

(b) Patient Receivables

The mix of net patient receivables was as follows at June 30, 2023 and 2022:

	2023	2022
Medicare and Medicare Managed Care	36 %	44 %
Medicaid and Medicaid Managed Care	10	11
Managed Care Plans	50	42
Other	4	3
	100 %	100 %

TUALITY HEALTHCARE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(13) Commitments and Contingencies

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

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

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

General and professional liability costs, as well as related expected insurance recoveries, have been accrued based on actuarial determination. The amount accrued, including the tail liability, at June 30, 2023 and 2022 for general and professional liability risks was \$1,817,500 and \$1,744,500, respectively, and is recorded in long-term liabilities. The related insurance receivable at June 30, 2023 and 2022 was \$1,187,000 and \$1,141,000, respectively and recorded in other receivables-non current.

Tuality has an employee medical benefit plan to self-insure claims. This self-insured medical benefit plan operates on a calendar year basis and is administered by a third-party administrator. Tuality has entered into a stop-loss insurance arrangement in an effort to limit its exposure. Tuality and its covered employee dependents contribute to the fund to pay medical claims and reinsurance premiums. At June 30, 2023 and 2022, management has made provisions which it believes to be sufficient to cover estimated claims, including claims incurred but not yet reported. The total of this expected liability, inclusive of deductibles, is \$1,808,907 as of June 30, 2023, and \$1,650,373 as of June 30, 2022.

SUPPLEMENTARY INFORMATION

TUALITY HEALTHCARE AND SUBSIDIARIES
Consolidating Schedule of Balance Sheet Information
June 30, 2023 and 2022

Assets	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated	
							June 30, 2023	June 30, 2022
Current assets:								
Cash and cash equivalents	\$ 6,924,325	113,389	19,397	886,519	7,943,630	—	7,943,630	21,847,203
Short-term investments	—	—	—	392,908	392,908	—	392,908	630,499
Patient accounts receivable	43,922,536	614,270	—	—	44,536,806	—	44,536,806	40,487,504
Allowance for uncollectible accounts	—	—	—	—	—	—	—	—
Other receivables	6,472,745	—	13,214	10,000	6,495,959	—	6,495,959	5,646,722
Inventory of supplies	5,260,615	649,891	—	—	5,910,506	—	5,910,506	4,873,333
Prepaid expenses and other	2,861,897	829	45,697	—	2,908,423	—	2,908,423	2,096,484
Estimated receivable from Medicare and Medicaid settlements	—	—	—	—	—	—	—	454,030
Due from subsidiaries	1,646,264	563,904	14,364,733	9,148	16,584,049	(16,584,049)	—	—
Assets whose use is limited:								
Required for current liabilities	1,051,532	—	—	—	1,051,532	—	1,051,532	1,033,408
Total current assets	68,139,914	1,942,283	14,443,041	1,298,575	85,823,813	(16,584,049)	69,239,764	77,069,183
Assets whose use is limited:								
Board-designated funds	31,777,224	—	—	—	31,777,224	—	31,777,224	34,949,642
Under bond indenture agreement – held by Trustee	—	—	—	—	—	—	—	119
Donor-restricted – specific purpose	—	—	—	6,146,507	6,146,507	—	6,146,507	6,095,571
Donor-restricted – endowment	—	—	—	2,759,066	2,759,066	—	2,759,066	2,854,961
Less amount required for current liabilities	(1,051,532)	—	—	—	(1,051,532)	—	(1,051,532)	(1,033,408)
Total assets whose use is limited	30,725,692	—	—	8,905,573	39,631,265	—	39,631,265	42,866,885
Property and equipment:								
Property and equipment	196,232,789	44,275	20,420,848	—	216,697,912	—	216,697,912	213,911,011
Accumulated depreciation and amortization	(143,663,460)	(44,275)	(15,307,677)	—	(159,015,412)	—	(159,015,412)	(151,698,539)
Total property and equipment	52,569,329	—	5,113,171	—	57,682,500	—	57,682,500	62,212,472
Other assets:								
Lease right-of-use asset	6,716,885	—	—	—	6,716,885	—	6,716,885	—
Other receivables – noncurrent	1,187,000	—	—	—	1,187,000	—	1,187,000	1,141,000
Investments in subsidiaries	17,534,433	—	—	—	17,534,433	(17,534,433)	—	—
Investments in unconsolidated affiliates	962,287	—	—	—	962,287	—	962,287	993,424
Deferred compensation plan	2,933,693	—	—	—	2,933,693	—	2,933,693	2,507,525
Cash value of life insurance	727,382	—	—	—	727,382	—	727,382	727,382
Deferred costs and other	230,187	—	—	—	230,187	—	230,187	230,187
Intangible assets	8,025	—	1,432,784	—	1,440,809	—	1,440,809	1,495,484
Goodwill	318,500	—	—	—	318,500	—	318,500	318,500
Total other assets	30,618,392	—	1,432,784	—	32,051,176	(17,534,433)	14,516,743	7,413,502
Total assets	\$ 182,053,327	1,942,283	20,988,996	10,204,148	215,188,754	(34,118,482)	181,070,272	189,562,042

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Balance Sheet Information

June 30, 2023 and 2022

Liabilities and Net Assets	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated	
							June 30, 2023	June 30, 2022
Current liabilities:								
Accounts payable	\$ 21,953,128	1,791,311	1,107,131	700,680	25,552,250	(16,584,049)	8,968,201	11,417,956
Accrued payroll and employee benefits	12,448,244	—	—	—	12,448,244	—	12,448,244	14,771,766
Due to related party	10,681,488	—	—	—	10,681,488	—	10,681,488	24,619,859
Deferred Revenue COVID CARES	—	—	—	—	—	—	—	2,672,006
Estimated liabilities for Medicare and Medicaid settlements	5,325,183	—	—	—	5,325,183	—	5,325,183	—
Long-term debt due within one year	1,122,249	—	—	—	1,122,249	—	1,122,249	1,089,901
Operating leases	1,501,511	—	—	—	1,501,511	—	1,501,511	—
Accrued bond interest payable	71,532	—	—	—	71,532	—	71,532	78,408
Total current liabilities	53,103,335	1,791,311	1,107,131	700,680	56,702,457	(16,584,049)	40,118,408	54,649,896
Long-term liabilities:								
Long-term debt, net of amount due within one year	8,850,491	—	—	—	8,850,491	—	8,850,491	9,958,578
Operating leases	5,403,252	—	—	—	5,403,252	—	5,403,252	—
Liability for pension benefits	21,692,829	—	—	—	21,692,829	—	21,692,829	29,679,508
Other long-term liabilities	24,416,987	—	—	—	24,416,987	—	24,416,987	23,872,819
Total long-term liabilities	60,363,559	—	—	—	60,363,559	—	60,363,559	63,510,905
Total liabilities	113,466,894	1,791,311	1,107,131	700,680	117,066,016	(16,584,049)	100,481,967	118,160,801
Net assets:								
Net assets without donor restrictions	68,586,433	150,972	19,881,865	994,696	89,613,966	(17,534,433)	72,079,533	62,320,184
Net assets with donor restrictions	—	—	—	8,508,772	8,508,772	—	8,508,772	9,081,057
Total net assets	68,586,433	150,972	19,881,865	9,503,468	98,122,738	(17,534,433)	80,588,305	71,401,241
Total liabilities and net assets	\$ 182,053,327	1,942,283	20,988,996	10,204,148	215,188,754	(34,118,482)	181,070,272	189,562,042

See accompanying independent auditors' report.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Operations

Years ended June 30, 2023 and 2022

	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated	
							June 30, 2023	June 30, 2022
Patient service revenue	\$ 268,533,119	1,813,429	—	—	270,346,548	—	270,346,548	261,997,829
OHSU support	22,812,752	—	—	—	22,812,752	—	22,812,752	11,050,787
Federal stimulus funding (FEMA)	1,802,354	—	—	—	1,802,354	—	1,802,354	—
Other revenue	8,663,920	112,681	3,087,404	22,208	11,886,213	(3,272,116)	8,614,097	15,689,075
Total revenue	301,812,145	1,926,110	3,087,404	22,208	306,847,867	(3,272,116)	303,575,751	288,737,691
Operating expenses:								
Salaries and wages	108,774,746	—	—	—	108,774,746	—	108,774,746	100,417,369
Employee benefits	29,156,059	—	—	—	29,156,059	—	29,156,059	24,196,241
Supplies and other expenses	113,364,652	1,937,870	610,507	1,023	115,914,052	(2,780,392)	113,133,660	112,716,670
Professional fees	44,124,719	—	—	—	44,124,719	—	44,124,719	43,131,160
Management fees	—	—	491,724	—	491,724	(491,724)	—	—
Depreciation and amortization	7,445,083	—	196,373	—	7,641,456	—	7,641,456	7,456,094
Interest	723,927	—	—	—	723,927	—	723,927	706,870
Total operating expenses	303,589,186	1,937,870	1,298,604	1,023	306,826,683	(3,272,116)	303,554,567	288,624,404
(Loss) income from operations	(1,777,041)	(11,760)	1,788,800	21,185	21,184	—	21,184	113,287
Other income:								
Other operating revenue (expenses)	—	—	—	—	—	—	—	—
Realized income on investments whose use is limited by board designation	—	—	—	—	—	—	—	255,671
Change on unrealized gains (losses) on investments	2,227,527	—	—	—	2,227,527	—	2,227,527	(6,624,385)
Gain (loss) on investments in affiliated companies	—	—	—	(4,796)	(4,796)	—	(4,796)	610,348
Gain on disposal of property and equipment	2,086	—	—	—	2,086	—	2,086	(71,935)
Other nonoperating expenses	—	—	—	—	—	—	—	—
Total other (loss) income	2,229,613	—	—	(4,796)	2,224,817	—	2,224,817	(5,830,301)
(Deficit) excess of revenue over expenses	452,572	(11,760)	1,788,800	16,389	2,246,001	—	2,246,001	(5,717,014)
Change in net unrealized gains (losses) on other than trading securities	—	—	—	27,294	27,294	—	27,294	24,917
Pension-related changes	7,486,054	—	—	—	7,486,054	—	7,486,054	11,436,545
Increase (decrease) in net assets without donor restrictions	\$ 7,938,626	(11,760)	1,788,800	43,683	9,759,349	—	9,759,349	5,744,448

See accompanying independent auditors' report.