



ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Schedules

September 30, 2022 and 2021

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Directors
Asante Health System and subsidiaries:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Asante Health System and subsidiaries (the Company), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included on pages 33 to 35 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Portland, Oregon
December 14, 2022

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2022 and 2021

(In thousands)

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2022 and 2021

(In thousands)

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

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended September 30, 2022 and 2021

(In thousands)

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

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2022 and 2021

(In thousands)

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

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2022 and 2021

(In thousands)

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

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

(1) Organization

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

Asante Corporate (Parent Company)

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

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

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

(i) Asante Rogue Regional Medical Center (ARRMC)

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

(ii) Asante Three Rivers Medical Center (ATRMC)

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

(iii) Asante Ashland Community Hospital (AACH)

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

(b) Other Affiliates

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

(i) Asante Physician Partners (APP)

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

(ii) Asante Foundation (the Foundation)

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

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

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

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Notes to Consolidated Financial Statements

September 30, 2022 and 2021

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

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

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

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

(2) Summary of Significant Accounting Policies

(a) *Basis of Consolidation*

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

(b) *Use of Estimates*

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

(c) *Cash and Cash Equivalents*

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

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

(d) *Patient Accounts Receivable*

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

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

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

(e) *Inventories*

Inventories of supplies are valued on weighted average cost.

(f) *Assets Whose Use is Limited*

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

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

(g) *Marketable Securities*

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

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(h) Property, Plant, and Equipment

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

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

Equipment under finance lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included within depreciation in the accompanying consolidated financial statements.

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

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

(i) Financing Costs

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

(j) Investments in Healthcare Ventures

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

(k) Self-Insurance

(i) Workers' Compensation

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

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

(ii) Medical

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

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

(iii) Professional Liability

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

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

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

(I) Oregon State Provider Tax

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

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Notes to Consolidated Financial Statements

September 30, 2022 and 2021

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

(m) Net Assets

(i) Assets without Donor Restrictions

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

(ii) Assets with Donor Restrictions

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

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

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Notes to Consolidated Financial Statements

September 30, 2022 and 2021

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

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

(n) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated settlements under third-party reimbursement agreements are accrued in the period the related services are rendered and adjusted in future periods, primarily as a result of final settlements.

(o) Other Operating Revenue

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

(p) Charity Care

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

(q) Nonoperating Income

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

(r) (Deficit) Excess of Revenue over Expenses

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

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September 30, 2022 and 2021

(s) Federal and State Income Taxes

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

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

(3) COVID-19

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

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

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

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

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

(4) Marketable Securities and Assets Whose Use is Limited

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

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

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

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

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

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

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

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

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(5) Property, Plant, and Equipment

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

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

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

(6) Other Assets

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

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

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(7) Long-Term Debt and Finance Lease Obligations

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

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

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

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

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(a) Series 2020A – Tax Exempt Bonds

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

(b) Series 2020B – Federally Taxable Bonds

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

(c) 2015 Loan

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

(d) 2016 Note

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

(e) Guarantees

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

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

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

(f) Debt Covenants

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

(g) Line of Credit

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

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(8) Leases

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

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

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

The finance and operating lease liabilities will mature as follows:

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

(9) Retirement Plan

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

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

(10) Defined-Benefit Pension Plan

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

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

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

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

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

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

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

Assumptions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Cash Flows

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

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

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

(11) Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Asante expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, Asante bills patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

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

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

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

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

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Asante's historical settlement activity and are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments from finalization and adjustment of prior years' cost reports and other third-party settlement estimates resulted in an increase in net patient service revenue of approximately \$857,000 for September 30, 2022 and a decrease of \$751,000 for the year ended September 30, 2021.

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

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

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

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

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

(12) Charity and Community Benefit

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

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

(13) Functional Classification of Operating Expenses

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

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

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

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

(14) Liquidity

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

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

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

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

(15) Commitments and Contingencies

(a) Risk Management

In the ordinary course of business, Asante is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. However, management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the years ended September 30, 2022 and 2021.

(b) Regulations and Litigation

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2022 and 2021

(c) *Collective Bargaining Agreements*

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

(d) *Purchase Commitments*

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

(16) *Subsequent Events*

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

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

September 30, 2022

(In thousands)

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

See accompanying independent auditors' report.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Operations and Changes in Net Assets Information

Year ended September 30, 2022

(In thousands)

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

See accompanying independent auditors' report.



ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Schedules

September 30, 2023 and 2022

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Directors
Asante Health System:

Opinion

We have audited the consolidated financial statements of Asante Health System and its subsidiaries (the Company), which comprise the consolidated balance sheets as of September 30, 2023 and September 30, 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 September 30, 2023 and September 30, 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.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included on pages 33 to 35 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Portland, Oregon
January 16, 2024

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2023 and 2022

(In thousands)

Assets	2023	2022
Current assets:		
Cash and cash equivalents	\$ 72,491	44,528
Assets whose use is limited, current portion	9,053	8,914
Patient accounts receivable, net	153,737	173,129
Accrued interest and other receivables	39,463	32,013
Inventories	14,602	17,368
Prepaid expenses	18,913	16,003
Total current assets	<u>308,259</u>	<u>291,955</u>
Assets whose use is limited:		
Restricted by donors	54,458	45,867
Beneficial Interest in Ashland Community Health Foundation	413	451
Assets restricted under bond indenture	—	56,465
Board and other designated assets	12,897	12,441
	<u>67,768</u>	<u>115,224</u>
Less amount required to meet current obligations	<u>9,053</u>	<u>8,914</u>
	58,715	106,310
Marketable securities	616,817	604,168
Property, plant, and equipment, net	752,028	664,650
Land held for future use	10,809	10,809
Other assets, net	13,964	12,387
Pension benefit asset	1,067	—
Total assets	<u>\$ 1,761,659</u>	<u>1,690,279</u>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2023 and 2022

(In thousands)

Liabilities and Net Assets	2023	2022
Current liabilities:		
Accounts payable	\$ 44,268	45,128
Payroll, payroll taxes, and related benefits	42,952	38,528
Self-insurance liability, current portion	13,579	12,829
Estimated reimbursement due to government agencies, net	7,160	8,233
Other current liabilities	65,482	51,671
Medicare accelerated and advance payment	—	91
Current portion of long-term debt and finance lease obligations	9,053	8,914
Total current liabilities	182,494	165,394
Long-term debt and finance lease obligations, net of current portion and unamortized bond cost	519,707	531,968
Pension benefit obligation	—	3,357
Other long-term liabilities	32,898	32,552
Total liabilities	735,099	733,271
Net assets:		
Without donor restrictions	971,480	910,482
With donor restrictions	55,080	46,526
Total net assets	1,026,560	957,008
Total liabilities and net assets	\$ 1,761,659	1,690,279

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended September 30, 2023 and 2022

(In thousands)

	<u>2023</u>	<u>2022</u>
Revenue and other support:		
Net patient service revenue	\$ 1,179,607	1,123,815
Other operating revenue	<u>30,870</u>	<u>59,749</u>
Total revenue and other support	<u>1,210,477</u>	<u>1,183,564</u>
Operating expenses:		
Salaries and benefits	702,866	747,754
Supplies	251,806	233,089
Purchased services	105,823	95,022
Professional fees	21,306	21,882
Repairs and maintenance	15,621	12,810
Insurance	6,926	5,744
Rent and utilities	13,737	11,132
Interest and amortization	6,281	4,776
Depreciation	42,643	43,581
Provider tax expense	64,481	60,376
Other	<u>11,476</u>	<u>8,591</u>
Total operating expenses	<u>1,242,966</u>	<u>1,244,757</u>
Operating loss	<u>(32,489)</u>	<u>(61,193)</u>
Nonoperating income (loss):		
Investment income, net of fees	27,326	41,875
Change in unrealized gains and losses on trading investments	66,395	(181,066)
Other, net	<u>(520)</u>	<u>(747)</u>
Total nonoperating income (loss)	<u>93,201</u>	<u>(139,938)</u>
Excess (deficit) of revenue over expenses, carried forward	\$ <u><u>60,712</u></u>	<u><u>(201,131)</u></u>

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2023 and 2022

(In thousands)

	2023	2022
Assets without donor restrictions:		
Excess (deficit) of revenue over expenses, carried forward	\$ 60,712	(201,131)
Net assets released from restrictions used for purchases of property, plant, and equipment	286	8,651
Increase (decrease) in net assets without restrictions	60,998	(192,480)
Assets with donor restrictions:		
Contributions and investment income	9,880	26,947
Net assets released from restrictions	(1,326)	(9,682)
Increase in net assets with restrictions	8,554	17,265
Increase (decrease) in net assets	69,552	(175,215)
Net assets, beginning of year	957,008	1,132,223
Net assets, end of year	\$ 1,026,560	957,008

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2023 and 2022

(In thousands)

	2023	2022
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 69,552	(175,215)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	39,434	40,492
(Gain) loss on sale of property, plant, and equipment	(2,555)	76
Realized and net change in unrealized gains and losses on marketable securities	(78,404)	162,724
Earnings of healthcare joint ventures	(1,420)	(1,530)
Change in interest in Ashland Community Health Foundation	37	325
Distributions from investments in healthcare ventures	1,509	482
Restricted contributions	(208)	—
Change in operating assets and liabilities:		
Operating assets	10,135	(26,312)
Operating liabilities	12,882	(70,468)
Net cash provided by (used in) operating activities	<u>50,962</u>	<u>(69,426)</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(134,607)	(191,010)
Proceeds from sale of property, plant and equipment	7,141	—
Sales of marketable securities and assets whose use is limited	189,748	436,853
Purchases of marketable securities and assets whose use is limited	<u>(76,575)</u>	<u>(246,579)</u>
Net cash used in investing activities	<u>(14,293)</u>	<u>(736)</u>
Cash flows from financing activities:		
Principal payments on long-term debt and capital lease obligations	(8,914)	(8,750)
Restricted Contributions	<u>208</u>	<u>—</u>
Net cash used in financing activities	<u>(8,706)</u>	<u>(8,750)</u>
Net increase (decrease) in cash and cash equivalents	27,963	(78,912)
Cash and cash equivalents, beginning of year	<u>44,528</u>	<u>123,440</u>
Cash and cash equivalents, end of year	\$ <u><u>72,491</u></u>	\$ <u><u>44,528</u></u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 9,295	7,784
Change in capital purchases in accounts payable	(8,157)	2,092
Assets obtained in exchange for new operating lease obligations	3,531	4,183

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(1) Organization

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

Asante Corporate (Parent Company)

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

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

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

(i) Asante Rogue Regional Medical Center (ARRMC)

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

(ii) Asante Three Rivers Medical Center (ATRMC)

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

(iii) Asante Ashland Community Hospital (AACH)

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

(b) Other Affiliates

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

(i) Asante Physician Partners (APP)

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

(ii) Asante Foundation (the Foundation)

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

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

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

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

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

HASO is a disregarded entity LLC functioning as a provider network structure amongst community providers, APP providers, and Asante hospitals. Its purpose is to aggregate providers and facilities to improve quality, efficiency, and patient satisfaction in the marketplace through innovative payment arrangements with payors and employers. Currently, there are 882 provider participants including 121 physician groups representing virtually every medical and surgical specialty.

(2) Summary of Significant Accounting Policies

(a) *Basis of Consolidation*

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

(b) *Use of Estimates*

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

(c) *Cash and Cash Equivalents*

Cash and cash equivalents include certain investments in highly liquid financial instruments with original maturities of three months or less when purchased. Cash equivalent balances included in cash and cash equivalents in the consolidated balance sheets at September 30, 2023 and 2022 are \$9,898,000 and \$8,973,000, respectively. Cash equivalents exclude those balances held as a portion of assets whose use is limited or marketable securities.

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

(d) *Patient Accounts Receivable*

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

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

	September 30	
	2023	2022
Medicare	37 %	36 %
Medicaid	14	13
Private pay	1	1
Commercial	42	44
Others	6	6
	<u>100 %</u>	<u>100 %</u>

The mix of gross receivables based on significant third-party payor classification is as follows:

	September 30	
	2023	2022
Medicare	51 %	48 %
Medicaid	20	20
Private pay	2	2
Commercial	20	21
Others	7	9
	<u>100 %</u>	<u>100 %</u>

(e) *Inventories*

Inventories of supplies are valued on weighted average cost.

(f) *Assets Whose Use is Limited*

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

Assets restricted under bond indenture include proceeds from the Series 2020A – Tax Exempt and 2020B – Federally Taxable bond issuance which established project funds. The project funds were

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

used for various service expansions including a new patient pavilion at ARPMC, expansion of emergency department at ATRMC and two regional cancer centers in Medford and Grants Pass.

(g) Marketable Securities

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

(h) Property, Plant, and Equipment

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

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

Equipment under finance lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included within depreciation in the accompanying consolidated financial statements.

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

Asante assesses potential impairment to its long-lived assets, including land held for future use, when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. No impairment losses have been identified as of September 30, 2023 and 2022.

(i) Financing Costs

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

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Notes to Consolidated Financial Statements

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(j) Investments in Healthcare Ventures

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

(k) Self-Insurance

(i) Workers' Compensation

The annual self-insured retention under Asante's workers' compensation program is \$750,000 over the life of an individual claim. Asante carries an excess coverage policy for its workers' compensation program. The accrued liability for the self-insured components of the plan includes the unpaid portion of claims that have been reported and estimates for claims that have been incurred but not reported. The actuarially determined total estimated gross liability at September 30, 2023 is \$3,281,000 with \$1,885,000 of this amount insured estimated to be covered by coverage provided by excess carriers. The actuarially determined total estimated gross liability at September 30, 2022 is \$4,854,000, with \$2,091,000 of this amount insured estimated to be covered by coverage provided by excess carriers. The current portion of the accrued liability for workers' compensation is included in self-insurance liability. The long-term portion of the accrued liability is included in other long-term liabilities. The above policy limits and liabilities relate to workers compensation claims prior to September 30, 2020. Effective October 1, 2020 Asante was insured under a worker's compensation plan. No new self-insurance claims were expected to be incurred after September 30, 2020.

(ii) Medical

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

The actuarially determined estimated liability for Asante is 8,867,000 and \$7,478,000 at September 30, 2023 and 2022, respectively, and is included in self-insurance liability.

(iii) Professional Liability

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

The total expected value of the undiscounted estimated gross liability for Asante at September 30, 2023 is \$19,103,000 with \$3,949,000 of this amount estimated to be covered by excess carriers. The total expected value of the undiscounted estimated gross liability for Asante at September 30, 2022 is \$17,751,000 with \$3,011,000 of this amount estimated to be covered by excess carriers.

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The current portion of the liability is recorded in self-insurance liability. The long-term portion is included in other long-term liabilities. The receivable for insurance recoveries is included in other assets, net.

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

(l) Oregon State Provider Tax

The State of Oregon operates a provider tax program related to certain patient service revenue at certain qualifying hospitals. Asante recorded provider tax expenses of approximately \$64,481,000 and \$60,376,000 for the years ended September 30, 2023 and 2022, respectively. Asante recorded provider tax liabilities of \$15,588,000 and \$15,053,000 at September 30, 2023 and 2022, respectively, which are included in other current liabilities in the accompanying consolidated balance sheets. In addition, Asante has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments to Asante related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to Asante. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to the qualifying hospitals. The amounts received or receivable from OAHHS for the years ended September 30, 2023 and 2022 are \$64,481,000 and \$60,376,000, respectively, which are reflected as a component of net patient service revenue in the accompanying consolidated statements of operations. Asante recorded receivables of \$15,539,000 and \$15,007,000 at September 30, 2023 and 2022, respectively, which are included in other receivables in the accompanying consolidated balance sheets.

(m) Net Assets

(i) Assets without Donor Restrictions

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

(ii) Assets with Donor Restrictions

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

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

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equipment, these amounts are reported as released from restriction for capital in the consolidated statements of changes in net assets.

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

		2023	2022
Capital	\$	32,670	26,936
Womens, children and infant health		5,108	3,886
Restricted for specific purpose at AACH		413	659
Others		16,889	15,045
Total net assets with donor restrictions	\$	55,080	46,526

(n) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated settlements under third-party reimbursement agreements are accrued in the period the related services are rendered and adjusted in future periods, primarily as a result of final settlements.

(o) Other Operating Revenue

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

(p) Charity Care

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

(q) Nonoperating Income (loss)

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

(r) Excess (deficit) of Revenue over Expenses

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

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(s) Federal and State Income Taxes

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Asante and recognize a tax liability (or asset) if Asante has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by Asante and has concluded that as of September 30, 2023, there are no uncertain positions taken, or expected to be taken, that would require recognition of a liability (or an asset) or disclosure in the consolidated financial statements. Asante is subject to routine audits by taxing jurisdictions; however, no such audits are currently in process.

(3) COVID-19 Funding

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020 and authorized \$100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the Fund). Payments from the Fund are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using the funding to reimburse expenses or losses that other sources are obligated to reimburse.

Provider relief funds were not required to be repaid provided recipients attest to and comply with certain terms and conditions, including limits on COVID-19 balance billing. Asante received \$0 and \$9,945,440 of general distributions as of September 30, 2023 and 2022, respectively which were included in other operating revenue.

In response to COVID-19, Asante submitted eligible expenses for reimbursement to the Federal Emergency Management Agency (FEMA). For the fiscal year ended September 30, 2023, Asante received and recognized \$4,618,000 in FEMA grant funds which was reported in other operating revenue.

In response to COVID-19 and subsequent to the CARES act, the Centers for Medicare and Medicaid Services (CMS), expanded the existing Accelerated and Advance Payments Program in order to accelerate cash flow to impacted health care providers. For the year ended September 30, 2020, Asante received accelerated and advanced payments of \$73,031,000. Recoupment of 25 percent of Medicare payments began in May 2021, one year after the payments were received and was expected to continue for 11 months. After the 11-month period, Medicare began recouping 50 percent of Medicare payments for six months. For the years ended September 30, 2023 and 2022, \$0 and \$91,000, respectively, was outstanding and recorded as current liabilities.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(4) Marketable Securities and Assets Whose Use is Limited

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

	<u>2023</u>	<u>2022</u>
Corporate equity securities	\$ 114,837	101,705
Mutual funds	452,510	486,180
Corporate bonds	20,720	22,080
Exchange-traded international index funds	6,861	7,661
U.S. government agency obligations	49,276	56,192
U.S. government obligations	19,553	17,654
Cash equivalents	6,006	4,872
Collateralized mortgage obligations	14,409	22,597
	<u>684,172</u>	<u>718,941</u>
Add:		
Assets held by Ashland Community Health Foundation	413	451
Less:		
Assets whose use is limited, current portion	9,053	8,914
Assets whose use is limited, net of current portion	<u>58,715</u>	<u>106,310</u>
Marketable securities	<u>\$ 616,817</u>	<u>604,168</u>

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

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

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Notes to Consolidated Financial Statements

September 30, 2023 and 2022

The following table presents the balances of assets measured at fair value on a recurring basis at September 30, 2023 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value</u>
Assets:				
Corporate equity securities:				
Large cap value	\$ 37,292	—	—	37,292
Small/mid cap growth	39,011	—	—	39,011
Large cap growth	38,534	—	—	38,534
Total	<u>114,837</u>	<u>—</u>	<u>—</u>	<u>114,837</u>
Mutual funds:				
Equity	352,666	—	—	352,666
Fixed income	93,647	—	—	93,647
Money market	6,197	—	—	6,197
Total	<u>452,510</u>	<u>—</u>	<u>—</u>	<u>452,510</u>
Corporate bonds	—	20,720	—	20,720
Exchange-traded international index funds	6,861	—	—	6,861
U.S. government agency obligations	—	49,276	—	49,276
U.S. government obligations	19,553	—	—	19,553
Collateralized mortgage obligations	—	14,409	—	14,409
Cash equivalents	6,006	—	—	6,006
Total	<u>\$ 599,767</u>	<u>84,405</u>	<u>—</u>	<u>684,172</u>

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Notes to Consolidated Financial Statements

September 30, 2023 and 2022

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

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

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Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(5) Property, Plant, and Equipment

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

	<u>2023</u>	<u>2022</u>
Land and land improvements	\$ 50,643	52,469
Buildings	487,641	500,289
Equipment and furniture	422,518	395,374
Leasehold improvements	2,921	2,921
Operating lease right-of-use assets	17,522	19,015
Buildings under capital leases	<u>5,234</u>	<u>5,234</u>
Property, plant, and equipment, gross	986,479	975,302
Less accumulated depreciation	<u>(615,888)</u>	<u>(575,555)</u>
Property, plant, and equipment, net	370,591	399,747
Construction in progress	<u>381,437</u>	<u>264,903</u>
Total property, plant, and equipment	<u>\$ 752,028</u>	<u>664,650</u>

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. Capitalized interest was \$10,962,000 and \$12,598,000 as of September 30, 2023 and 2022.

(6) Other Assets

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

	<u>2023</u>	<u>2022</u>
Investments in healthcare ventures	\$ 6,578	6,667
Self-insurance recoverable	5,834	5,102
Other	<u>1,552</u>	<u>618</u>
Total other assets	<u>\$ 13,964</u>	<u>12,387</u>

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Notes to Consolidated Financial Statements

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(7) Long-Term Debt and Finance Lease Obligations

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

	<u>2023</u>	<u>2022</u>
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2020A (inclusive of unamortized premium of \$74,848 and \$78,333 in 2023 and 2022, respectively), maturing in varying annual amounts, due 2050	\$ 513,793	517,278
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2020B, maturing in varying annual amounts, due 2025	10,830	17,340
2016 Note, due 2023	—	2,002
Other	8,094	8,466
Finance lease obligations	<u>441</u>	<u>471</u>
Total long-term debt and finance lease obligations	533,158	545,557
Less unamortized debt issuance costs	(4,398)	(4,676)
Less current portion	<u>(9,053)</u>	<u>(8,914)</u>
Total long-term debt and finance lease obligations, net of current portion	\$ <u>519,707</u>	<u>531,967</u>

Annual maturities of long-term debt and the future minimum financing lease obligations, excluding net bond premium of \$74,848, are as follows as of September 30, 2023 (in thousands):

	<u>Long-term debt</u>
2024	\$ 9,019
2025	9,213
2026	9,574
2027	10,086
2028	10,679
Thereafter	<u>409,298</u>
Total long-term debt and finance lease obligations	\$ <u>457,869</u>

(a) Series 2020A – Tax Exempt Bonds

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

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(b) Series 2020B – Federally Taxable Bonds

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

(c) 2016 Note

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

(d) Guarantees

Asante guarantees a loan for CVI Real Property, LLC, which owns a building on the ARRC campus. The amount of this loan was \$2,120,000 and \$2,397,000 at September 30, 2023 and 2022, respectively.

Asante has a 25% guarantee of indebtedness for CVISO Management Company, LLC. This guarantee is for an operating line of credit in an amount up to \$500,000. The balance outstanding on the line of credit was \$0 and \$129,000 at September 30, 2023 and 2022.

Asante guarantees a loan for The Women's Center, LLC, which owns a building adjacent to the ATRMC campus. The amount of this loan was \$4,085,000 and \$4,265,000 at September 30, 2023 and 2022, respectively.

(e) Debt Covenants

The bond indentures and other loan agreements contain, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of debt service coverage and other ratios. Management believes that Asante is in compliance with these covenants as of September 30, 2023.

(f) Line of Credit

In April 2023, Asante renewed a \$10,000,000 unsecured line of credit through Bank of America. The term of the line of credit is for 12 months and bears interest at a variable rate based on the BSBY Daily Floating Rate plus 0.65%. As of September 30, 2023 there was no outstanding balance on this line of credit.

(8) Leases

Asante leases various buildings, office space, and equipment to support operations. The operating leases included in property and equipment, net as of September 30, 2023 and September 30, 2022 was \$17,522,000 and \$19,015,000. The operating leases included in other current liabilities and other long-term liabilities as of September 30, 2023 and September 30, 2022 were \$2,632,000 and \$3,917,000 and \$13,687,000 and \$13,819,000 respectively. The weighted average terms of the finance and operating leases were 9 and 5 years, respectively. The weighted average discount rate on operating leases were 3.0%.

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Asante incurred leases expenses for the years September 30, 2023 and 2022 as follows (in thousands):

	2023	2022
Finance lease expense included in depreciation and amortization:		
Amortization of ROU assets	\$ 29	26
Finance lease expense included in interest:		
Interest on lease liabilities	38	40
Total finance lease expense	67	66
Operating lease expense included in rent and utilities	5,679	5,274
Total lease expense	\$ 5,746	5,340

The finance and operating lease liabilities will mature as follows:

	Finance leases	Operating leases	Total leases
2024	\$ 33	3,525	3,558
2025	37	3,279	3,316
2026	40	2,325	2,365
2027	45	1,749	1,794
2028	49	1,342	1,391
Thereafter	237	11,284	11,521
Amounts related to interest	—	(7,185)	(7,185)
	\$ 441	16,319	16,760

(9) Retirement Plan

Asante sponsors the Asante Retirement Plan and Trust, a defined-contribution plan, which has two components: the matching plan and the basic plan. Under the basic plan, Asante contributes 3% of the employee's salary to a tax deferred account. All eligible employees receive this contribution, whether or not they contribute to a tax deferred account. Under the matching plan, after completion of one year of service, Asante matches 50% of the employee's contribution, up to a maximum match of 3% of the employee's pay. To be eligible for both the basic and matching plans, employees must work at least one year and maintain a work level of at least 1,000 hours per year. Contributions are funded every two weeks and are fully and immediately vested. Costs related to these defined-contribution plans for Asante totaled \$23,985,000 and \$22,516,000 for the years ended September 30, 2023 and 2022, respectively.

(10) Defined-Benefit Pension Plan

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

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benefits continue to accrue. Benefits earned before the Plan was frozen will continue to be paid as participants qualify to receive the benefits.

The following table sets forth disclosures related to the Plan in accordance with FASB ASC Section 715-20-65, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of September 30, 2023 and 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
Change in projected benefit obligation:		
Projected benefit obligation (PBO) at beginning year	\$ 31,149	42,905
Interest cost	1,537	1,061
Actuarial (gain) on PBO, net	(1,336)	(10,304)
Benefits paid	<u>(2,695)</u>	<u>(2,513)</u>
Projected benefit obligation at year-end	<u>\$ 28,655</u>	<u>31,149</u>
Change in fair value of plan assets:		
Fair value of assets at beginning of year	\$ 27,792	35,406
Contributions	600	689
Actual return on plan assets	4,025	(5,790)
Benefits paid	<u>(2,695)</u>	<u>(2,513)</u>
Fair value of assets at end of year	<u>\$ 29,722</u>	<u>27,792</u>
Reconciliation of funded status:		
Funded status – (asset) obligation	<u>\$ (1,067)</u>	<u>3,357</u>
Net amount recognized	<u>\$ (1,067)</u>	<u>3,357</u>

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

The accumulated benefit obligation for the Plan is the same as the projected benefit obligation at September 30, 2023 and 2022.

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

	<u>2023</u>	<u>2022</u>
Interest cost	\$ 1,537	1,061
Expected return on plan assets	(1,626)	(2,073)
Other changes in pension liability	—	—
Recognized actuarial (gain)	<u>(3,735)</u>	<u>(2,441)</u>
Net periodic pension (benefit)	<u>\$ (3,824)</u>	<u>(3,453)</u>

Assumptions

Asante used the following actuarial assumptions to determine its benefit obligations at September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Discount rate	5.59 %	5.12 %

Asante used the following actuarial assumptions to determine its net periodic benefit cost for the years ended September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Discount rate	5.12 %	2.55 %
Expected long-term rate of return on plan assets	6.00	6.00

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

The mortality assumptions were based on the PRI-2012 table with MP-2021 projections as of September 30, 2023.

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

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

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

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

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2023 (in thousands):

	Level 1	Level 2	Level 3	Total fair value
Cash and equivalents	\$ 130	—	—	130
U.S. Common Stock	3,724	—	—	3,724
Government Agency Securities	—	4,822	—	4,822
Mutual funds:				
Large cap	6,848	—	—	6,848
Mid cap	2,055	—	—	2,055
Small cap	1,479	—	—	1,479
International	6,593	—	—	6,593
Fixed income	2,607	—	—	2,607
High yield	1,166	—	—	1,166
Other	298	—	—	298
Total plan assets at fair value	\$ 24,900	4,822	—	29,722

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

Cash Flows

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

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

	Pension benefits
2024	\$ 2,559
2025	2,197
2026	2,170
2027	2,234
2028	2,292
2029–2033	10,801

(11) Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Asante expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, Asante bills patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

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

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

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Asante's historical settlement activity and are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments from finalization and adjustment of prior years' cost reports and other third-party settlement estimates resulted in an increase in net patient service revenue of approximately \$1,028,000 for September 30, 2023 and a decrease of \$857,000 for the year ended September 30, 2022.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance. Asante also provides services to uninsured patients and offers those uninsured patients a discount from standard charge. Asante estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended September 30, 2023 and 2022 was not significant.

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

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

	<u>2023</u>	<u>2022</u>
Revenue by payor:		
Medicare	\$ 451,161	425,708
Medicaid	228,418	216,289
Commercial and others	483,340	470,065
Private pay	16,688	11,753
	<u>\$ 1,179,607</u>	<u>1,123,815</u>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Patient revenue:		
Inpatient revenue	\$ 519,574	538,242
Outpatient revenue	<u>660,033</u>	<u>585,573</u>
	<u>\$ 1,179,607</u>	<u>1,123,815</u>

(12) Charity and Community Benefit

Asante provides services without charge, or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. The estimated cost of charges forgone is determined by multiplying forgone charges by the ratio of gross operating expenses divided by gross operating revenue. The estimated cost of providing these services for the years ending September 30, 2023 and 2022 was \$8,001,000 and \$6,451,000, respectively.

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

(13) Functional Classification of Operating Expenses

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

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

2023			
	Patient services	Support services	Total
Salaries and benefits	\$ 546,706	156,160	702,866
Supplies	240,754	11,052	251,806
Purchased services	29,254	76,569	105,823
Professional fees	2,733	18,573	21,306
Repairs and maintenance	10,481	5,140	15,621
Insurance	5,573	1,353	6,926
Rent and utilities	1,607	12,130	13,737
Interest and amortization	—	6,281	6,281
Depreciation	—	42,643	42,643
Provider tax	64,481	—	64,481
Other	2,413	9,063	11,476
Total	\$ 904,002	338,964	1,242,966

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

(14) Liquidity

As of September 30, 2023 and 2022, respectively, Asante has working capital excess of \$125,765,000 and \$126,561,000 and average days (based on normal expenditures) cash on hand of 214 and 201 days.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

The table below represents financial assets available for general expenditures within one year at September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 72,491	44,528
Accounts receivable, net	153,737	173,129
Marketable securities	<u>616,817</u>	<u>604,168</u>
Total financial assets	<u>\$ 843,045</u>	<u>821,825</u>

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

(15) Commitments and Contingencies

(a) Risk Management

In the ordinary course of business, Asante is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. However, management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the years ended September 30, 2023 and 2022.

(b) Regulations and Litigation

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(c) *Collective Bargaining Agreements*

Approximately 15.2% of Asante's employees are covered by a collective bargaining agreement. All employees are bedside nurses with the Oregon Nurses Association working at ARRCM. One contract covers all the employees in this bargaining unit, and the most recent contract is effective October, 24, 2020 through September 30, 2023.

(d) *Purchase Commitments*

Asante has committed to various construction and information technology purchases, including ARRCM Pavilion construction. As of September 30, 2023, future commitments for these projects total approximately \$70,916,000. Commitments are expected to be funded by excess working capital and investments.

(16) Subsequent Events

Asante has evaluated the impact of subsequent events through January 16, 2024, the date on which the consolidated financial statements were issued and has determined that all subsequent events have been appropriately reflected in the accompanying consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

September 30, 2023

(In thousands)

Assets	Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Current assets:				
Cash and cash equivalents	\$ 53,083	19,408	—	72,491
Assets whose use is limited, current portion	9,053	—	—	9,053
Patient accounts receivable, net	148,939	4,798	—	153,737
Accrued interest and other receivables	21,102	18,361	—	39,463
Inventories	14,602	—	—	14,602
Prepaid expenses	18,759	154	—	18,913
Total current assets	265,538	42,721	—	308,259
Intercompany receivable (payable)	252,268	(252,268)	—	—
Assets whose use is limited:				
Restricted by donors	—	54,458	—	54,458
Beneficial interest in Ashland Community Health Foundation	—	413	—	413
Assets restricted under bond indenture	—	—	—	—
Board and other designated assets	9,053	3,844	—	12,897
	9,053	58,715	—	67,768
Less amount required to meet current obligations	9,053	—	—	9,053
	—	58,715	—	58,715
Marketable securities	611,797	5,020	—	616,817
Property, plant, and equipment, net	730,514	21,514	—	752,028
Land held for future use	10,809	—	—	10,809
Beneficial interest in Asante Foundation	58,514	—	(58,514)	—
Other assets, net	14,007	(43)	—	13,964
Pension asset	1,067	—	—	1,067
Total assets	\$ 1,944,514	(124,341)	(58,514)	1,761,659

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

September 30, 2023

(In thousands)

Liabilities and Net Assets	Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Current liabilities:				
Accounts payable	\$ 41,586	2,682	—	44,268
Payroll, payroll taxes, and related benefits	41,447	1,505	—	42,952
Self-insurance liability, current portion	10,207	3,372	—	13,579
Estimated reimbursement due to government agencies, net	7,160	—	—	7,160
Other current liabilities	55,106	10,376	—	65,482
Current portion of long-term and financing lease obligations	9,053	—	—	9,053
Total current liabilities	164,559	17,935	—	182,494
Long-term debt and financing lease obligations, net of current portion and unamortized bond cost	519,707	—	—	519,707
Pension benefit obligation	—	—	—	—
Other long-term liabilities	26,975	5,923	—	32,898
Total liabilities	711,241	23,858	—	735,099
Net assets:				
Without donor restrictions	1,187,214	(203,070)	(12,664)	971,480
With donor restrictions	46,059	54,871	(45,850)	55,080
Total net assets	1,233,273	(148,199)	(58,514)	1,026,560
Total liabilities and net assets	\$ 1,944,514	(124,341)	(58,514)	1,761,659

See accompanying independent auditors' report.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Operations and Changes in Net Assets Information

Year ended September 30, 2023

(In thousands)

	Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Revenue and other support:				
Net patient service revenue	\$ 1,123,517	56,090	—	1,179,607
Other operating revenue	21,415	11,943	(2,488)	30,870
Total revenue and other support	1,144,932	68,033	(2,488)	1,210,477
Operating expenses:				
Salaries and benefits	625,026	77,840	—	702,866
Supplies	247,558	4,248	—	251,806
Purchased services	93,230	12,593	—	105,823
Professional fees	20,760	546	—	21,306
Repairs and maintenance	15,265	356	—	15,621
Insurance	3,921	5,030	(2,025)	6,926
Rent and utilities	13,621	116	—	13,737
Interest and amortization	6,281	463	(463)	6,281
Depreciation	40,818	1,825	—	42,643
Provider tax expense	64,481	—	—	64,481
Other	9,415	2,061	—	11,476
Total operating expenses	1,140,376	105,078	(2,488)	1,242,966
Operating income (loss)	4,556	(37,045)	—	(32,489)
Nonoperating income	89,094	4,107	—	93,201
Excess (deficit) of revenues over expenses	93,650	(32,938)	—	60,712
Net assets without restrictions released from restrictions used for purchases of property, plant, and equipment	286	—	—	286
Increase (decrease) in net assets without donor restrictions	93,936	(32,938)	—	60,998
Net assets with donor restriction:				
Contributions and investment income	9,880	9,880	(9,880)	9,880
Net assets released from restrictions	(1,326)	(1,326)	1,326	(1,326)
Increase (decrease) in net assets with restrictions	8,554	8,554	(8,554)	8,554
Increase (decrease) in net assets	102,490	(24,384)	(8,554)	69,552
Net assets, beginning of year:				
Without donor restrictions	1,093,279	(170,133)	(12,664)	910,482
With donor restrictions	41,232	46,319	(41,025)	46,526
Net assets, end of year	\$ 1,237,001	(148,198)	(62,243)	1,026,560

See accompanying independent auditors' report.



ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Schedules

September 30, 2024 and 2023

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 200
3800 Centerpoint Drive
Anchorage, AK 99503

Independent Auditors' Report

The Board of Directors
Asante Health System:

Opinion

We have audited the consolidated financial statements of Asante Health System and its subsidiaries (the Company), which comprise the consolidated balance sheets as of September 30, 2024 and 2023, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included on pages 33 to 35 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Anchorage, Alaska
January 22, 2025

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2024 and 2023
(In thousands)

Assets	2024	2023
Current assets:		
Cash and cash equivalents	\$ 78,873	72,491
Assets whose use is limited, current portion	9,247	9,053
Patient accounts receivable, net	232,545	153,737
Accrued interest and other receivables	65,618	39,463
Inventories	15,107	14,602
Prepaid expenses	18,300	18,913
Total current assets	419,690	308,259
Assets whose use is limited:		
Restricted by donors	28,623	54,458
Beneficial Interest in Ashland Community Health Foundation	346	413
Board and other designated assets	18,640	12,897
	47,609	67,768
Less amount required to meet current obligations	9,247	9,053
	38,362	58,715
Marketable securities	746,033	616,817
Property, plant, and equipment, net	750,801	752,028
Land held for future use	10,809	10,809
Other assets, net	13,323	13,964
Pension benefit asset	730	1,067
Total assets	\$ 1,979,748	1,761,659

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2024 and 2023
(In thousands)

Liabilities and Net Assets	2024	2023
Current liabilities:		
Accounts payable	\$ 44,034	44,268
Payroll, payroll taxes, and related benefits	50,938	42,952
Self-insurance liability, current portion	49,358	13,579
Estimated reimbursement due to government agencies, net	8,266	7,160
Other current liabilities	63,062	65,482
Current portion of long-term debt and finance lease obligations	9,247	9,053
Total current liabilities	224,905	182,494
Long-term debt and finance lease obligations, net of current portion and unamortized bond cost	507,131	519,707
Other long-term liabilities	33,202	32,898
Total liabilities	765,238	735,099
Net assets:		
Without donor restrictions	1,185,333	971,480
With donor restrictions	29,177	55,080
Total net assets	1,214,510	1,026,560
Total liabilities and net assets	\$ 1,979,748	1,761,659

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended September 30, 2024 and 2023
(In thousands)

	<u>2024</u>	<u>2023</u>
Revenue and other support:		
Net patient service revenue	\$ 1,328,965	1,179,607
Other operating revenue	<u>48,422</u>	<u>30,870</u>
Total revenue and other support	<u>1,377,387</u>	<u>1,210,477</u>
Operating expenses:		
Salaries and benefits	745,771	702,866
Supplies	268,794	251,806
Purchased services	111,755	105,823
Professional fees	23,608	21,306
Repairs and maintenance	14,314	15,621
Insurance	11,012	6,926
Rent and utilities	13,019	13,737
Interest and amortization	12,501	6,281
Depreciation	52,433	42,643
Provider tax expense	71,801	64,481
Other	<u>12,208</u>	<u>11,476</u>
Total operating expenses	<u>1,337,216</u>	<u>1,242,966</u>
Operating income (loss)	<u>40,171</u>	<u>(32,489)</u>
Nonoperating income:		
Investment income, net of fees	40,429	27,326
Change in unrealized gains and losses on trading investments	108,668	66,395
Other, net	<u>(3,521)</u>	<u>(520)</u>
Total nonoperating income	<u>145,576</u>	<u>93,201</u>
Excess of revenue over expenses, carried forward	\$ <u><u>185,747</u></u>	<u><u>60,712</u></u>

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2024 and 2023
(In thousands)

	2024	2023
Assets without donor restrictions:		
Excess of revenue over expenses, carried forward	\$ 185,747	60,712
Net assets released from restrictions used for purchases of property, plant, and equipment	28,106	286
Increase in net assets without restrictions	213,853	60,998
Assets with donor restrictions:		
Contributions and investment income	3,480	9,880
Net assets released from restrictions	(29,383)	(1,326)
(Decrease) increase in net assets with restrictions	(25,903)	8,554
Increase in net assets	187,950	69,552
Net assets, beginning of year	1,026,560	957,008
Net assets, end of year	\$ 1,214,510	1,026,560

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2024 and 2023
(In thousands)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Increase in net assets	\$ 187,950	69,552
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	49,103	39,434
Gain on sale of property, plant, and equipment	(645)	(2,555)
Realized and net change in unrealized gains and losses on marketable securities	(131,123)	(78,404)
(Earnings) losses on healthcare joint ventures	(1,537)	(1,420)
Change in interest in Ashland Community Health Foundation	67	37
Distributions from investments in healthcare ventures	1,034	1,509
Restricted contributions	—	(208)
Change in operating assets and liabilities:		
Operating assets	(105,860)	10,135
Operating liabilities	42,859	12,882
Net cash provided by operating activities	<u>41,848</u>	<u>50,962</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(49,361)	(134,607)
Proceeds from sale of property, plant and equipment	951	7,141
Sales of marketable securities and assets whose use is limited	64,470	189,748
Purchases of marketable securities and assets whose use is limited	<u>(42,473)</u>	<u>(76,575)</u>
Net cash used in investing activities	<u>(26,413)</u>	<u>(14,293)</u>
Cash flows from financing activities:		
Principal payments on long-term debt and capital lease obligations	(9,053)	(8,914)
Restricted contributions	<u>—</u>	<u>208</u>
Net cash used in financing activities	<u>(9,053)</u>	<u>(8,706)</u>
Net increase in cash and cash equivalents	6,382	27,963
Cash and cash equivalents, beginning of year	<u>72,491</u>	<u>44,528</u>
Cash and cash equivalents, end of year	\$ <u>78,873</u>	<u>72,491</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 15,785	9,295
Change in capital purchases in accounts payable	(17,895)	(8,157)
Assets obtained in exchange for new operating lease obligations	2,150	3,531

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(1) Organization

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

Asante Corporate (Parent Company)

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

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

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

(i) Asante Rogue Regional Medical Center (ARRMC)

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

(ii) Asante Three Rivers Medical Center (ATRMC)

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

(iii) Asante Ashland Community Hospital (AACH)

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

(b) Other Affiliates

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

(i) Asante Physician Partners (APP)

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

(ii) Asante Foundation (the Foundation)

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

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

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

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

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

HASO is a disregarded entity LLC functioning as a provider network structure amongst community providers, APP providers, and Asante hospitals. Its purpose is to aggregate providers and facilities to improve quality, efficiency, and patient satisfaction in the marketplace through innovative payment arrangements with payors and employers. Currently, there are 950 provider participants including 110 physician groups representing most medical and surgical specialties.

(2) Summary of Significant Accounting Policies

(a) *Basis of Consolidation*

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

(b) *Use of Estimates*

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

(c) *Cash and Cash Equivalents*

Cash and cash equivalents include certain investments in highly liquid financial instruments with original maturities of three months or less when purchased. Cash equivalent balances included in cash and cash equivalents in the consolidated balance sheets at September 30, 2024 and 2023 are \$9,069,000 and \$9,898,000, respectively. Cash equivalents exclude those balances held as a portion of assets whose use is limited or marketable securities.

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

(d) *Patient Accounts Receivable*

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

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

	September 30	
	2024	2023
Medicare	38 %	37 %
Medicaid	14	14
Private pay	1	1
Commercial	40	42
Others	7	6
	<u>100 %</u>	<u>100 %</u>

The mix of gross receivables based on significant third-party payor classification is as follows:

	September 30	
	2024	2023
Medicare	50 %	51 %
Medicaid	21	20
Private pay	2	2
Commercial	20	20
Others	7	7
	<u>100 %</u>	<u>100 %</u>

(e) *Inventories*

Inventories of supplies is recorded at the lower of weighted average cost or net realizable value.

(f) *Assets Whose Use is Limited*

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

Assets restricted under bond indenture include proceeds from the Series 2020A – Tax Exempt and 2020B – Federally Taxable bond issuance which established project funds. The project funds were

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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used for various service expansions including a new patient pavilion at ARPMC, expansion of emergency department at ATRMC and two regional cancer centers in Medford and Grants Pass.

(g) Marketable Securities

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

(h) Property, Plant, and Equipment

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

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

Equipment under finance lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included within depreciation in the accompanying consolidated financial statements.

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

Asante assesses potential impairment to its long-lived assets, including land held for future use, when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. No impairment losses have been identified as of September 30, 2024 and 2023.

(i) Financing Costs

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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(j) Investments in Healthcare Ventures

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

(k) Self-Insurance

(i) Workers' Compensation

The annual self-insured retention under Asante's workers' compensation program is \$750,000 over the life of an individual claim. Asante carries an excess coverage policy for its workers' compensation program. The accrued liability for the self-insured components of the plan includes the unpaid portion of claims that have been reported and estimates for claims that have been incurred but not reported. As of September 30, 2024 and 2023, Asante carried workers' compensation reserves of \$1,198,000 and \$1,396,000, of which the current portions are included in self-insurance liability and the long-term portions are included in other long-term liabilities on the consolidated balance sheet. The above policy limits and liabilities relate to workers' compensation claims prior to September 30, 2020. Effective October 1, 2020, Asante was insured under a workers' compensation plan. No new self-insurance claims were expected to be incurred after September 30, 2020.

(ii) Medical

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

The actuarially determined estimated liability for Asante is \$13,108,000 and \$8,867,000 at September 30, 2024 and 2023, respectively, and is included in self-insurance liability.

(iii) Professional Liability

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

The total expected value of the undiscounted estimated gross liability for Asante at September 30, 2024 is \$50,461,000 with \$34,716,000 of this amount estimated to be covered by excess carriers. The total expected value of the undiscounted estimated gross liability for Asante at September 30, 2023 is \$19,103,000 with \$3,949,000 of this amount estimated to be covered by excess carriers. The current portion of the liability is recorded in self-insurance liability. The long-term portion is included in other long-term liabilities. The current and long-term receivables for insurance

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Notes to Consolidated Financial Statements

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recoveries are included in accrued interest and other receivables and other assets, net, respectively

(l) Oregon State Provider Tax

The State of Oregon operates a provider tax program related to certain patient service revenue at certain qualifying hospitals. Asante recorded provider tax expenses of approximately \$71,801,000 and \$64,481,000 for the years ended September 30, 2024 and 2023, respectively. Asante recorded provider tax liabilities of \$19,351,000 and \$15,588,000 at September 30, 2024 and 2023, respectively, which are included in other current liabilities in the accompanying consolidated balance sheets. In addition, Asante has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments to Asante related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to Asante. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to the qualifying hospitals. The total provider tax revenue from OAHHS for the years ended September 30, 2024 and 2023 are \$71,801,000 and \$64,481,000, respectively, which are reflected as a component of net patient service revenue in the accompanying consolidated statements of operations. Asante recorded receivables of \$19,279,000 and \$15,539,000 at September 30, 2024 and 2023, respectively, which are included in other receivables in the accompanying consolidated balance sheets.

(m) Net Assets

(i) Assets without Donor Restrictions

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

(ii) Assets with Donor Restrictions

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

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

		<u>2024</u>	<u>2023</u>
Capital	\$	7,130	32,670
Womens, children and infant health		6,680	5,108
Restricted for specific purpose at AACH		554	413
Others		<u>14,813</u>	<u>16,889</u>
Total net assets with donor restrictions	\$	<u>29,177</u>	<u>55,080</u>

(n) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated settlements under third-party reimbursement agreements are accrued in the period the related services are rendered and adjusted in future periods, primarily as a result of final settlements.

(o) Other Operating Revenue

Other operating revenue includes revenue from nonpatient care services, clinical revenue, miscellaneous revenue, and FEMA funds.

(p) Charity Care

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

(q) Nonoperating Income (loss)

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

(r) Excess of Revenue over Expenses

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(s) Federal and State Income Taxes

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

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Asante and recognize a tax liability (or asset) if Asante has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by Asante and has concluded that as of September 30, 2024, there are no uncertain positions taken, or expected to be taken, that would require recognition of a liability (or an asset) or disclosure in the consolidated financial statements. Asante is subject to routine audits by taxing jurisdictions; however, no such audits are currently in process.

(3) COVID-19 Funding

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020 and authorized \$100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the Fund). Payments from the Fund are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using the funding to reimburse expenses or losses that other sources are obligated to reimburse.

In response to COVID-19, Asante submitted eligible expenses for reimbursement to the Federal Emergency Management Agency (FEMA). For the fiscal years ended September 30, 2024 and 2023, Asante received and recognized \$588,000 and \$4,618,000 in FEMA grant funds, respectively, which was reported in other operating revenue.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(4) Marketable Securities and Assets Whose Use is Limited

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

	<u>2024</u>	<u>2023</u>
Corporate equity securities	\$ 138,182	114,837
Mutual funds	530,039	452,510
Corporate bonds	26,955	20,720
Exchange-traded international index funds	7,205	6,861
U.S. government agency obligations	53,272	49,276
U.S. government obligations	16,738	19,553
Cash equivalents	6,538	6,006
Collateralized mortgage obligations	<u>14,367</u>	<u>14,409</u>
	793,296	684,172
Add:		
Assets held by Ashland Community Health Foundation	346	413
Less:		
Assets whose use is limited, current portion	9,247	9,053
Assets whose use is limited, net of current portion	<u>38,362</u>	<u>58,715</u>
Marketable securities	<u>\$ 746,033</u>	<u>616,817</u>

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

The following table presents the balances of assets measured at fair value on a recurring basis at September 30, 2024 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value</u>
Assets:				
Corporate equity securities:				
Large cap value	\$ 44,669	—	—	44,669
Small/mid cap growth	47,317	—	—	47,317
Large cap growth	46,196	—	—	46,196
Total	138,182	—	—	138,182
Mutual funds:				
Equity	417,236	—	—	417,236
Fixed income	106,057	—	—	106,057
Money market	6,746	—	—	6,746
Total	530,039	—	—	530,039
Corporate bonds	—	26,955	—	26,955
Exchange-traded international index funds	7,205	—	—	7,205
U.S. government agency obligations	—	53,272	—	53,272
U.S. government obligations	16,738	—	—	16,738
Collateralized mortgage obligations	—	14,367	—	14,367
Cash equivalents	6,538	—	—	6,538
Total	\$ 698,702	94,594	—	793,296

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Notes to Consolidated Financial Statements

September 30, 2024 and 2023

The following table presents the balances of assets measured at fair value on a recurring basis at September 30, 2023 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value</u>
Assets:				
Corporate equity securities:				
Large cap value	\$ 37,292	—	—	37,292
Small/mid cap growth	39,011	—	—	39,011
Large cap growth	<u>38,534</u>	<u>—</u>	<u>—</u>	<u>38,534</u>
Total	<u>114,837</u>	<u>—</u>	<u>—</u>	<u>114,837</u>
Mutual funds:				
Equity	352,666	—	—	352,666
Fixed income	93,647	—	—	93,647
Money market	<u>6,197</u>	<u>—</u>	<u>—</u>	<u>6,197</u>
Total	452,510	—	—	452,510
Corporate bonds	—	20,720	—	20,720
Exchange-traded international index funds	6,861	—	—	6,861
U.S. government agency obligations	—	49,276	—	49,276
U.S. government obligations	19,553	—	—	19,553
Collateralized mortgage obligations	—	14,409	—	14,409
Cash equivalents	<u>6,006</u>	<u>—</u>	<u>—</u>	<u>6,006</u>
Total	\$ <u>599,767</u>	<u>84,405</u>	<u>—</u>	<u>684,172</u>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(5) Property, Plant, and Equipment

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

	2024	2023
Land and land improvements	\$ 50,111	50,643
Buildings	849,544	487,641
Equipment and furniture	480,775	422,518
Leasehold improvements	2,921	2,921
Operating lease right-of-use assets	20,280	17,522
Buildings under capital leases	5,234	5,234
Property, plant, and equipment, gross	1,408,865	986,479
Less accumulated depreciation	(668,501)	(615,888)
Property, plant, and equipment, net	740,364	370,591
Construction in progress	10,437	381,437
Total property, plant, and equipment	\$ 750,801	752,028

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. Capitalized interest was \$4,340,000 and \$10,962,000 as of September 30, 2024 and 2023.

(6) Other Assets

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

	2024	2023
Investments in healthcare ventures	6,936	6,578
Self-insurance recoverable	4,716	5,834
Other	1,671	1,552
	<u>13,323</u>	<u>13,964</u>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(7) Long-Term Debt and Finance Lease Obligations

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

	<u>2024</u>	<u>2023</u>
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2020A (inclusive of unamortized premium of \$71,255 and \$74,848 in 2024 and 2023, respectively), maturing in varying annual amounts, due 2050	\$ 503,595	513,793
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2020B, maturing in varying annual amounts, due 2025	8,805	10,830
Other	7,704	8,094
Finance lease obligations	<u>408</u>	<u>441</u>
Total long-term debt and finance lease obligations	520,512	533,158
Less unamortized debt issuance costs	(4,134)	(4,398)
Less current portion	<u>(9,247)</u>	<u>(9,053)</u>
Total long-term debt and finance lease obligations, net of current portion	\$ <u>507,131</u>	<u>519,707</u>

Annual maturities of long-term debt and the future minimum financing lease obligations, excluding net bond premium of \$71,255, are as follows as of September 30, 2024 (in thousands):

2025	\$ 9,213
2026	9,574
2027	10,086
2028	10,679
2029	11,160
Thereafter	<u>398,137</u>
Total long-term debt and finance lease obligations	\$ <u>448,849</u>

(a) Series 2020A – Tax Exempt Bonds

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

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Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(b) Series 2020B – Federally Taxable Bonds

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

(c) Guarantees

Asante guarantees a loan for CVI Real Property, LLC, which owns a building on the ARRC campus. The amount of this loan was \$1,831,000 and \$2,120,000 at September 30, 2024 and 2023, respectively.

Asante has a 25% guarantee of indebtedness for CVISO Management Company, LLC. This guarantee is for an operating line of credit in an amount up to \$500,000. The balance outstanding on the line of credit was \$0 at September 30, 2024 and 2023.

Asante guarantees a loan for The Women's Center, LLC, which owns a building adjacent to the ATRMC campus. The amount of this loan was \$3,916,000 and \$4,085,000 at September 30, 2024 and 2023, respectively.

(d) Debt Covenants

The bond indentures and other loan agreements contain, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of debt service coverage and other ratios. Management believes that Asante is in compliance with these covenants as of September 30, 2024.

(e) Line of Credit

In April 2024, Asante increased their \$10,000,000 unsecured line of credit through Bank of America to \$30,000,000. The term of the line of credit is for 12 months and bears interest at a variable rate based on the Daily SOFR Rate plus 0.90%. As of September 30, 2024 there was no outstanding balance on this line of credit.

(8) Leases

Asante leases various buildings, office space, and equipment to support operations. The operating leases included in property and equipment, net as of September 30, 2024 and September 30, 2023 was \$20,280,000 and \$17,522,000, respectively. The operating leases included in other current liabilities and other long-term liabilities as of September 30, 2024 and September 30, 2023 were \$4,280,000 and \$2,632,000 and \$13,193,000 and \$13,687,000, respectively. The weighted average terms of the finance leases were 8 and 9 years, respectively. The weighted average terms of the operating leases were 12 and 13 years, respectively. The weighted average discount rate on finance leases was 8.0% and the weighted average discount rate on operating leases was 3.0%.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

Asante incurred leases expenses for the years September 30, 2024 and 2023 as follows (in thousands):

	2024	2023
Finance lease expense included in depreciation and amortization:		
Amortization of ROU assets	\$ 33	29
Finance lease expense included in interest:		
Interest on lease liabilities	35	38
Total finance lease expense	68	67
Operating lease expense included in rent and utilities	4,801	5,679
Total lease expense	<u>4,869</u>	<u>5,746</u>

The finance and operating lease liabilities will mature as follows (in thousands):

	Finance leases	Operating leases	Total leases
2025	\$ 37	5,550	5,587
2026	40	4,428	4,468
2027	45	2,191	2,236
2028	49	1,387	1,436
2029	54	1,390	1,444
Thereafter	183	10,605	10,788
Amounts related to interest	—	(8,078)	(8,078)
	<u>\$ 408</u>	<u>17,473</u>	<u>17,881</u>

(9) Retirement Plan

Asante sponsors the Asante Retirement Plan and Trust, a defined-contribution plan, which has two components: the matching plan and the basic plan. Under the basic plan, Asante contributes 3% of the employee's salary to a tax deferred account. All eligible employees receive this contribution, whether or not they contribute to a tax deferred account. Under the matching plan, after completion of one year of service, Asante matches 50% of the employee's contribution, up to a maximum match of 3% of the employee's pay. To be eligible for both the basic and matching plans, employees must work at least one year and maintain a work level of at least 1,000 hours per year. Contributions are funded every two weeks and are fully and immediately vested. Costs related to these defined-contribution plans for Asante totaled \$25,875,000 and \$23,985,000 for the years ended September 30, 2024 and 2023, respectively.

(10) Defined-Benefit Pension Plan

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

benefits continue to accrue. Benefits earned before the Plan was frozen will continue to be paid as participants qualify to receive the benefits.

The following table sets forth disclosures related to the Plan in accordance with FASB ASC Section 715-20-65, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of September 30, 2024 and 2023 (in thousands):

	<u>2024</u>	<u>2023</u>
Change in projected benefit obligation:		
Projected benefit obligation (PBO) at beginning of year	\$ 28,655	31,149
Interest cost	1,531	1,537
Actuarial (gain) on PBO, net	4,687	(1,336)
Benefits paid	<u>(2,825)</u>	<u>(2,695)</u>
Projected benefit obligation at end of year	\$ <u>32,048</u>	<u>28,655</u>
Change in fair value of plan assets:		
Fair value of assets at beginning of year	29,722	27,792
Contributions	600	600
Actual return on plan assets	5,281	4,025
Benefits paid	<u>(2,825)</u>	<u>(2,695)</u>
Fair value of assets at end of year	\$ <u>32,778</u>	<u>29,722</u>
Reconciliation of funded status:		
Funded status – (asset) obligation	<u>(730)</u>	<u>(1,067)</u>
Net amount recognized	\$ <u><u>(730)</u></u>	<u><u>(1,067)</u></u>

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

The accumulated benefit obligation for the Plan is the same as the projected benefit obligation at September 30, 2024 and 2023.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

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

	<u>2024</u>	<u>2023</u>
Interest cost	\$ 1,531	1,537
Expected return on plan assets	(1,728)	(1,626)
Recognized actuarial (gain)	<u>1,134</u>	<u>(3,735)</u>
Net periodic pension expense (benefit)	\$ <u>937</u>	<u>(3,824)</u>

Assumptions

Asante used the following actuarial assumptions to determine its benefit obligations at September 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Discount rate	4.72%	5.59%

Asante used the following actuarial assumptions to determine its net periodic benefit cost for the years ended September 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Discount rate	5.59%	5.12%
Expected long-term rate of return on plan assets	6.00	6.00

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

The mortality assumptions were based on the PRI-2012 table with MP-2021 projections as of September 30, 2024.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

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

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

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

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

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2024 (in thousands):

	Level 1	Level 2	Level 3	Total fair value
Cash and equivalents	\$ 383	—	—	383
U.S. Common Stock	—	—	—	—
Exchange Traded Funds	6,484	—	—	6,484
Corporate Bonds	—	23,933	—	23,933
Government Agency Securities	—	1,975	—	1,975
Mutual funds:				—
Large cap	—	—	—	—
Mid cap	—	—	—	—
Small cap	—	—	—	—
International	—	—	—	—
Fixed income	—	—	—	—
High yield	—	—	—	—
Other	3	—	—	3
Total plan assets at fair value \$	<u>6,870</u>	<u>25,908</u>	<u>—</u>	<u>32,778</u>

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of September 30, 2023 (in thousands):

	Level 1	Level 2	Level 3	Total fair value
Cash and equivalents	\$ 130	—	—	130
U.S. Common Stock	3,724	—	—	3,724
Government Agency Securities	—	4,822	—	4,822
Mutual funds:				—
Large cap	6,848	—	—	6,848
Mid cap	2,055	—	—	2,055
Small cap	1,479	—	—	1,479
International	6,593	—	—	6,593
Fixed income	2,607	—	—	2,607
High yield	1,166	—	—	1,166
Other	298	—	—	298
Total plan assets at fair value \$	<u>24,900</u>	<u>4,822</u>	<u>—</u>	<u>29,722</u>

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

Cash Flows

Asante's policy with respect to funding the Plan is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended, plus such additional amounts deemed appropriate. In fiscal year 2025, Asante expects to contribute approximately \$150,000 to the Plan.

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

	Pension benefits
2025	\$ 2,494
2026	31,563

The liabilities are based on census data as of July 1, 2024, projected forward to September 30, 2024, adjusting for benefit payments and interest. In addition, the liabilities were adjusted to reflect the corporate resolution signed on June 4, 2024 to terminate the Plan on May 1, 2025. This includes the estimated cost of the lump sum window and final annuity purchase with the Plan liabilities expected to be fully settled by March 1, 2026.

(11) Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Asante expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, Asante bills patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

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

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

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

Medicare/Medicaid – Inpatient acute care services rendered to these program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The majority of Medicare outpatient services are reimbursed based on the prospective payment system known as Ambulatory Payment Classification. Asante is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by Asante and audits thereof by the third-party payors.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Asante's historical settlement activity and are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments from finalization and adjustment of prior years' cost reports and other third-party settlement estimates resulted in a decrease in net patient service revenue of approximately \$1,106,000 for September 30, 2024 and an increase of \$1,028,000 for the year ended September 30, 2023.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance. Asante also provides services to uninsured patients and offers those uninsured patients a discount from standard charge. Asante estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended September 30, 2024 and 2023 was not significant.

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

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

	<u>2024</u>	<u>2023</u>
Revenue by payor:		
Medicare	\$ 532,223	451,161
Medicaid	252,061	228,418
Commercial and others	508,027	483,340
Private pay and patient responsibility	36,654	16,688
	<u>\$ 1,328,965</u>	<u>1,179,607</u>
	<u>2024</u>	<u>2023</u>
Patient revenue:		
Inpatient revenue	\$ 606,922	519,574
Outpatient revenue	722,043	660,033
	<u>\$ 1,328,965</u>	<u>1,179,607</u>

(12) Charity and Community Benefit

Asante provides services without charge, or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. The estimated cost of charges forgone is determined by multiplying forgone charges by the ratio of gross operating expenses divided by gross operating revenue. The estimated cost of providing these services for the years ending September 30, 2024 and 2023 was \$13,444,000 and \$8,001,000, respectively.

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

(13) Functional Classification of Operating Expenses

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

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

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

2024			
	Patient services	Support services	Total
Salaries and benefits	\$ 574,553	171,218	745,771
Supplies	258,020	10,774	268,794
Purchased services	32,817	78,938	111,755
Professional fees	2,466	21,142	23,608
Repairs and maintenance	10,465	3,849	14,314
Insurance	8,851	2,161	11,012
Rent and utilities	1,652	11,367	13,019
Interest and amortization	—	12,501	12,501
Depreciation	—	52,433	52,433
Provider tax	71,801	—	71,801
Other	2,829	9,379	12,208
Total	\$ <u>963,454</u>	<u>373,762</u>	<u>1,337,216</u>

2023			
	Patient services	Support services	Total
Salaries and benefits	\$ 546,706	156,160	702,866
Supplies	240,754	11,052	251,806
Purchased services	29,254	76,569	105,823
Professional fees	2,733	18,573	21,306
Repairs and maintenance	10,481	5,140	15,621
Insurance	5,573	1,353	6,926
Rent and utilities	1,607	12,130	13,737
Interest and amortization	—	6,281	6,281
Depreciation	—	42,643	42,643
Provider tax	64,481	—	64,481
Other	2,413	9,063	11,476
Total	\$ <u>904,002</u>	<u>338,964</u>	<u>1,242,966</u>

(14) Liquidity

As of September 30, 2024 and 2023, respectively, Asante has working capital excess of \$194,785,000 and \$125,765,000 and average days (based on normal expenditures) cash on hand of 240 and 214 days.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

The table below represents financial assets available for general expenditures within one year at September 30, 2024 and 2023 (in thousands):

	<u>2024</u>	<u>2023</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 78,873	72,491
Accounts receivable, net	232,545	153,737
Marketable securities	<u>746,033</u>	<u>616,817</u>
Total financial assets	<u>\$ 1,057,451</u>	<u>843,045</u>

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

(15) Commitments and Contingencies

(a) Risk Management

In the ordinary course of business, Asante is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. However, management carries commercial insurance coverage which has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the years ended September 30, 2024 and 2023.

(b) Regulations and Litigation

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

In addition, Asante is involved in litigation and other regulatory investigations arising in the ordinary course of business. After consultation with legal counsel, and while the outcome of any litigation or regulatory investigation can be inherently uncertain, management believes that these matters will be resolved without causing a material adverse effect on Asante's future consolidated financial position or results of operations.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2024 and 2023

(c) *Collective Bargaining Agreements*

Approximately 17.8% of Asante's employees are covered by a collective bargaining agreement. All employees are bedside nurses with the Oregon Nurses Association working at ARPMC. One contract covers all the employees in this bargaining unit and the most recent contract is effective October 1, 2023 through September 30, 2026.

(d) *Purchase Commitments*

Asante has committed to various construction and information technology purchases. As of September 30, 2024, future commitments for these projects total approximately \$436,000. Commitments are expected to be funded by excess working capital.

(16) Subsequent Events

Asante has evaluated the impact of subsequent events through January 22, 2025, the date on which the consolidated financial statements were issued and has determined that all subsequent events have been appropriately reflected in the accompanying consolidated financial statements.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

September 30, 2024
(In thousands)

Assets	Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Current assets:				
Cash and cash equivalents	\$ 55,772	23,101	—	78,873
Assets whose use is limited, current portion	9,247	—	—	9,247
Patient accounts receivable, net	231,333	1,212	—	232,545
Accrued interest and other receivables	52,853	12,765	—	65,618
Inventories	15,107	—	—	15,107
Prepaid expenses	18,163	137	—	18,300
Total current assets	382,475	37,215	—	419,690
Intercompany receivable (payable)	312,494	(312,494)	—	—
Assets whose use is limited:				
Restricted by donors	—	28,623	—	28,623
Beneficial interest in Ashland Community Health Foundation	—	346	—	346
Board and other designated assets	9,247	9,393	—	18,640
	9,247	38,362	—	47,609
Less amount required to meet current obligations	9,247	—	—	9,247
	—	38,362	—	38,362
Marketable securities	705,632	40,401	—	746,033
Property, plant, and equipment, net	730,740	20,061	—	750,801
Land held for future use	10,809	—	—	10,809
Beneficial interest in Asante Foundation	24,021	—	(24,021)	—
Other assets, net	19,175	(5,852)	—	13,323
Pension asset	730	—	—	730
Total assets	\$ 2,186,076	(182,307)	(24,021)	1,979,748

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet Information

September 30, 2024

(In thousands)

Liabilities and Net Assets	Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Current liabilities:				
Accounts payable	\$ 43,229	805	—	44,034
Payroll, payroll taxes, and related benefits	49,821	1,117	—	50,938
Self-insurance liability, current portion	44,557	4,801	—	49,358
Estimated reimbursement due to government agencies, net	8,266	—	—	8,266
Other current liabilities	51,495	11,567	—	63,062
Current portion of long-term and financing lease obligations	9,247	—	—	9,247
Total current liabilities	206,615	18,290	—	224,905
Long-term debt and financing lease obligations, net of current portion and unamortized bond cost	507,131	—	—	507,131
Other long-term liabilities	26,446	6,756	—	33,202
Total liabilities	740,192	25,046	—	765,238
Net assets:				
Without donor restrictions	1,434,318	(236,321)	(12,664)	1,185,333
With donor restrictions	11,566	28,968	(11,357)	29,177
Total net assets	1,445,884	(207,353)	(24,021)	1,214,510
Total liabilities and net assets	\$ 2,186,076	(182,307)	(24,021)	1,979,748

See accompanying independent auditors' report.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidating Schedule – Operations and Changes in Net Assets Information

Year ended September 30, 2024

(In thousands)

	Asante Obligated Group	Other affiliates	Eliminations	Consolidated total
Revenue and other support:				
Net patient service revenue	\$ 1,271,809	57,156	—	1,328,965
Other operating revenue	43,773	8,357	(3,708)	48,422
Total revenue and other support	1,315,582	65,513	(3,708)	1,377,387
Operating expenses:				
Salaries and benefits	663,506	82,265	—	745,771
Supplies	264,602	4,192	—	268,794
Purchased services	101,115	10,640	—	111,755
Professional fees	22,937	671	—	23,608
Repairs and maintenance	13,988	326	—	14,314
Insurance	5,302	8,169	(2,459)	11,012
Rent and utilities	12,925	94	—	13,019
Interest and amortization	12,501	1,249	(1,249)	12,501
Depreciation	50,636	1,797	—	52,433
Provider tax expense	71,801	—	—	71,801
Other	10,623	1,585	—	12,208
Total operating expenses	1,229,936	110,988	(3,708)	1,337,216
Operating income (loss)	85,646	(45,475)	—	40,171
Nonoperating income	133,352	12,224	—	145,576
Excess (deficit) of revenues over expenses	218,998	(33,251)	—	185,747
Net assets without restrictions released from restrictions used for purchases of property, plant, and equipment	28,106	—	—	28,106
Increase (decrease) in net assets without donor restrictions	247,104	(33,251)	—	213,853
Net assets with donor restriction:				
Contributions and investment income	3,480	3,480	(3,480)	3,480
Net assets released from restrictions	(29,383)	(29,383)	29,383	(29,383)
Increase (decrease) in net assets with restrictions	(25,903)	(25,903)	25,903	(25,903)
Increase (decrease) in net assets	221,201	(59,154)	25,903	187,950
Net assets, beginning of year:				
Without donor restrictions	1,187,214	(203,070)	(12,664)	971,480
With donor restrictions	37,469	54,871	(37,260)	55,080
Net assets, end of year	\$ 1,445,884	(207,353)	(24,021)	1,214,510

See accompanying independent auditors' report.

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands)

	As of December 31		As of September 30,
	2024	2023	2024
	Unaudited		Audited
Assets			
Current assets:			
Cash and cash equivalents	\$ 96,445	\$ 44,120	\$ 78,873
Assets whose use is limited, current portion	9,256	9,057	9,247
Patient accounts receivable, net	223,538	174,699	232,545
Accrued interest and other receivables	33,510	37,275	35,618
Inventories	16,229	14,028	15,107
Prepaid expenses	21,284	20,345	18,300
Total current assets	400,262	299,525	389,690
Intercompany	(149)	0	0
Assets whose use is limited:			
Restricted by donors	30,900	55,196	28,623
Beneficial interest in AACH Foundation	346	413	346
Assets restricted under bond indenture			
Board and other designated assets	17,269	15,365	18,640
	48,515	70,975	47,609
Less amount required to meet current obligations	9,256	9,057	9,247
	39,259	61,918	38,362
Marketable securities	734,938	673,797	746,033
Property, plant, and equipment, net	744,002	756,632	750,801
Land held for future use	10,809	10,809	10,809
Other assets, net	43,273	13,675	43,323
Pension benefit asset	963	1,299	730
Total assets	1,973,358	1,817,653	1,979,748
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	34,405	35,347	44,034
Payroll, payroll taxes, and related benefits	59,916	57,174	50,938
Self-insurance liability, current portion	47,802	14,644	49,358
Estimated reimbursement due to govt. agencies, net	8,166	7,711	8,266
Other current liabilities	67,556	72,438	62,530
Medicare accelerated and advanced payments	139	-	532
Current portion of long-term debt and capital lease obligations	9,256	9,057	9,247
Total current liabilities	227,240	196,371	224,906
Long-term debt and capital lease obligations, net of current portion and unamortized bond cost	506,162	518,776	507,131
Pension benefit obligation	-	-	-
Other long-term liabilities	33,187	33,751	33,202
Total liabilities	766,588	748,899	765,238
Net assets:			
Without donor restrictions	1,175,515	1,012,936	1,185,333
With donor restrictions	31,254	55,818	29,177
Total net assets	1,206,770	1,068,754	1,214,510
Total liabilities and net assets	\$ 1,973,358	\$ 1,817,653	\$ 1,979,748

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands)

	As of December 31		As of September 30,
	2024	2023	2024
	Unaudited		Audited
Revenue and other support:			
Net patient service revenue	\$ 329,944	\$ 320,724	\$ 1,328,965
Other operating revenue	13,664	5,167	48,422
Total revenues, gains, and other support	343,608	325,892	1,377,387
Operating expenses:			
Salaries and benefits	192,080	199,702	745,771
Supplies	68,308	66,011	268,794
Purchased services	28,014	28,889	111,755
Professional fees	6,149	6,118	23,608
Repairs and maintenance	3,369	3,739	14,314
Insurance	999	2,500	11,012
Rent and utilities	3,371	3,221	13,019
Interest and amortization	4,078	1,638	12,501
Depreciation	15,060	10,226	52,433
Provider tax expense	19,534	16,153	71,801
Other	2,392	3,414	12,208
Total operating expenses	343,352	341,611	1,337,216
Operating income	256	(15,719)	40,171
Nonoperating income:			
Investment income, net of fees	18,315	8,802	40,429
Change in unrealized gains and losses on trading investments	(29,131)	49,430	108,668
Other, net	537	(1,055)	(3,521)
Loss on extinguishment of debt	-	-	-
Total nonoperating income	(10,279)	57,177	145,576
Excess revenues over expenses	(\$10,023)	\$ 41,458	\$ 185,747

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands)

	As of March 31		As of September 30,
	2025	2024	2024
	Unaudited		Audited
Assets			
Current assets:			
Cash and cash equivalents	\$ 73,516	\$ 64,406	\$ 78,873
Assets whose use is limited, current portion	9,262	9,062	9,247
Patient accounts receivable, net	232,872	220,662	232,545
Accrued interest and other receivables	58,998	39,470	35,618
Inventories	16,515	14,743	15,107
Prepaid expenses	24,102	22,300	18,300
Total current assets	415,266	370,643	389,689
Intercompany	34	(0)	(0)
Assets whose use is limited:			
Restricted by donors	31,976	56,207	28,623
Beneficial interest in AACH Foundation	346	413	346
Assets restricted under bond indenture			
Board and other designated assets	17,074	16,903	18,640
	49,396	73,523	47,609
Less amount required to meet current obligations	9,262	9,062	9,247
	40,134	64,461	38,362
Marketable securities	743,866	669,596	746,033
Property, plant, and equipment, net	734,271	763,570	750,801
Land held for future use	10,809	10,809	10,809
Other assets, net	13,230	14,663	43,323
Pension benefit asset	1,048	1,452	730
Total assets	1,958,659	1,895,193	1,979,748
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	32,336	46,848	44,034
Payroll, payroll taxes, and related benefits	51,255	47,498	50,938
Self-insurance liability, current portion	43,458	18,497	50,191
Estimated reimbursement due to govt. agencies, net	7,054	8,235	8,266
Other current liabilities	58,325	74,819	62,530
Medicare accelerated and advanced payments	44	18,601	532
Current portion of long-term debt and capital lease obligations	9,262	9,062	9,247
Total current liabilities	201,733	223,562	225,739
Long-term debt and capital lease obligations, net of current portion and unamortized bond cost	505,187	517,837	507,131
Pension benefit obligation	-	-	-
Other long-term liabilities	33,208	33,773	32,369
Total liabilities	740,128	775,174	765,238
Net assets:			
Without donor restrictions	1,186,203	1,063,191	1,185,333
With donor restrictions	32,328	56,829	29,177
Total net assets	1,218,531	1,120,019	1,214,509
Total liabilities and net assets	\$ 1,958,659	\$ 1,895,193	\$ 1,979,748

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands)

	As of March 31		As of September 30,
	2025	2024	2024
	Unaudited		Audited
Revenue and other support:			
Net patient service revenue	\$ 667,144	\$ 647,405	\$ 1,328,965
Other operating revenue	29,851	30,163	48,422
Total revenues, gains, and other support	696,995	677,568	1,377,387
Operating expenses:			
Salaries and benefits	386,208	392,147	745,771
Supplies	144,344	131,965	268,794
Purchased services	56,739	59,893	111,755
Professional fees	12,781	11,245	23,608
Repairs and maintenance	7,407	7,465	14,314
Insurance	3,853	5,643	11,012
Rent and utilities	6,672	6,645	13,019
Interest and amortization	8,122	4,965	12,501
Depreciation	29,826	24,555	52,433
Provider tax expense	35,083	34,005	71,801
Other	3,873	6,238	12,208
Total operating expenses	694,910	684,767	1,337,216
Operating income	2,086	(7,199)	40,171
Nonoperating income:			
Investment income, net of fees	29,600	28,288	40,429
Change in unrealized gains and losses on trading investments	(31,164)	72,185	108,668
Other, net	60	(1,562)	(3,521)
Loss on extinguishment of debt	-	-	-
Total nonoperating income	(1,504)	98,911	145,576
Excess revenues over expenses	\$ 582	\$ 91,712	\$ 185,747

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands)

	As of June 30		As of September 30,
	2025	2024	2024
	Unaudited		Audited
Assets			
Current assets:			
Cash and cash equivalents	\$ 222,533	\$ 75,130	\$ 78,873
Assets whose use is limited, current portion	9,268	9,067	9,247
Patient accounts receivable, net	209,582	210,309	232,545
Accrued interest and other receivables	61,029	35,359	35,618
Inventories	17,352	15,544	15,107
Prepaid expenses	20,506	18,663	18,300
Total current assets	540,270	364,072	389,689
Intercompany	(144)	(0)	(0)
Assets whose use is limited:			
Restricted by donors	26,121	54,441	28,623
Beneficial interest in AACH Foundation	386	413	346
Assets restricted under bond indenture			
Board and other designated assets	20,105	16,622	18,640
	46,612	71,476	47,609
Less amount required to meet current obligations	9,268	9,067	9,247
	37,344	62,409	38,362
Marketable securities	808,212	676,854	746,033
Property, plant, and equipment, net	727,261	770,524	750,801
Land held for future use	10,809	10,809	10,809
Other assets, net	13,525	13,962	43,323
Pension benefit asset	1,135	1,602	730
Total assets	2,138,412	1,900,232	1,979,748
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	33,834	47,476	44,034
Payroll, payroll taxes, and related benefits	67,193	56,884	50,938
Self-insurance liability, current portion	34,438	18,078	50,191
Estimated reimbursement due to govt. agencies, net	5,524	10,061	8,266
Other current liabilities	67,870	72,842	62,530
Medicare accelerated and advanced payments		1,083	532
Current portion of long-term debt and capital lease obligations	9,268	9,067	9,247
Total current liabilities	218,128	215,491	225,739
Long-term debt and capital lease obligations, net of current portion and unamortized bond cost	504,205	516,890	507,131
Pension benefit obligation	-	-	-
Other long-term liabilities	33,229	33,794	32,369
Total liabilities	755,563	766,178	765,238
Net assets:			
Without donor restrictions	1,356,337	1,078,992	1,185,333
With donor restrictions	26,513	55,063	29,177
Total net assets	1,382,850	1,134,055	1,214,509
Total liabilities and net assets	\$ 2,138,412	\$ 1,900,232	\$ 1,979,748

Exhibit 4a

HCMO: Asante/SCSO Bates No. 137

ASANTE HEALTH SYSTEM AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands)

	As of June 30		As of September 30,
	2025	2024	2024
	Unaudited		Audited
Revenue and other support:			
Net patient service revenue	\$ 996,922	\$ 990,659	\$ 1,328,965
Other operating revenue	175,629	36,417	48,422
Total revenues, gains, and other support	1,172,551	1,027,077	1,377,387
Operating expenses:			
Salaries and benefits	588,604	584,294	745,771
Supplies	223,893	200,988	268,794
Purchased services	86,444	86,022	111,755
Professional fees	20,209	16,739	23,608
Repairs and maintenance	11,011	10,444	14,314
Insurance	16,736	8,631	11,012
Rent and utilities	10,973	10,338	13,019
Interest and amortization	12,227	8,740	12,501
Depreciation	45,220	38,318	52,433
Provider tax expense	53,961	51,563	71,801
Other	6,535	8,991	12,208
Total operating expenses	1,075,814	1,025,067	1,337,216
Operating income	96,738	2,009	40,171
Nonoperating income:			
Investment income, net of fees	36,712	36,184	40,429
Change in unrealized gains and losses on trading investments	21,254	69,372	108,668
Other, net	(386)	(2,096)	(3,521)
Loss on extinguishment of debt	-	-	-
Total nonoperating income	57,580	103,461	145,576
Excess revenues over expenses	\$ 154,318	\$ 105,470	\$ 185,747