



November 23, 2021

Eric Hernandez, Program Manager
Certificate of Need Program
Department of Health
111 Israel Road Southeast
Tumwater, WA 98501

Via Email: FSLCON@DOH.WA.GOV

Dear Mr. Hernandez:

Enclosed please find a copy of PeaceHealth's certificate of need application proposing to establish a Medicare certified/Medicaid eligible home health agency in Cowlitz County.

Also, please note that the appropriate review and processing fee of \$24,666 was previously confirmed received by the Department of Health.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Bryan Stewart".

Bryan Stewart,
System Vice President, Home & Community



RECEIVED

By Jennifer Kido at 3:44 pm, Dec 27, 2021

Certificate of Need Application
Home Health Agency

Certificate of Need applications must be submitted with a fee in accordance with Washington Administrative Code (WAC) 246-310-990.

Application is made for a Certificate of Need in accordance with provisions in Revised Code of Washington (RCW) 70.38 and WA 246-310, rules and regulations adopted by the Washington State Department of Health. I attest that the statements made in this application are correct to the best of my knowledge and belief.

Signature and Title of Responsible Officer

Bryan Stewart, System Vice President

Date: November 23, 2021

Email Address:

bstewart1@PeaceHealth.org

Telephone Number: 503-407-3817

Legal Name of Applicant

PeaceHealth Southwest Medical Center
(PeaceHealth)/PeaceHealth Home Care

Address of Applicant

400 NE Mother Joseph Pl, Vancouver, WA
98664

Provide a brief project description

- New Agency
- Expansion of Existing Agency
- Other:

Estimated capital expenditure: \$0

Identify the county proposed to be served for this project. Note: Each home health application must be submitted for one county only. If an applicant intends to obtain a Certificate of Need to serve more than one county, then an application must be submitted for each county separately.

Cowlitz County



**CERTIFICATE OF NEED APPLICATION
TO RECOGNIZE A
MEDICARE CERTIFIED HOME HEALTH AGENCY
IN
COWLITZ COUNTY**

November 2021

Section 1 APPLICANT DESCRIPTION

- 1. Provide the legal name(s) and address(es) of the applicant(s). Note: The term “applicant” for this purpose includes any person or individual with a ten percent or greater financial interest in the partnership or corporation or other comparable legal entity as defined in WAC 246-310-010(6).**

PeaceHealth is a not-for-profit Catholic health system offering care to urban and rural communities in Washington, Oregon, and Alaska. The applicant for this certificate of need is PeaceHealth dba Southwest Medical Center (PeaceHealth)/PeaceHealth Home Care. Throughout this application the applicant will be referred to as PeaceHealth Home Care. This agency has historically served a number of Counties in Southwest Washington including, but not limited to, the two largest—Clark and Cowlitz.

This application is being submitted because the CN Program reports that it lacks records to confirm that PeaceHealth’s services in Cowlitz County were properly grandfathered. While PeaceHealth respectfully disagrees, filing this application is the best and fastest means to assure that access in the County is preserved.

The address of PeaceHealth Home Care is:

5400 MacArthur Blvd.
Vancouver, WA 98661

Upon CN approval, the Cowlitz specific staff will operate out of shared space with the PeaceHealth Cowlitz Hospice operations that have been recently relocated to:

821 Washington Way
Longview, WA, 98632

- 2. Identify the legal structure of the applicant (LLC, PLLC, etc.) and provide the Unified Business Identifier (UBI).**

As noted above, PeaceHealth is a not-for-profit Catholic health system. PeaceHealth Home Care’s UBI number is 600 521 489.

- 3. Provide the name, title, address, telephone number, and email address of the contact person for this application.**

Questions regarding this application should be sent to:

Bryan Stewart,
System Vice President, Home & Community

PeaceHealth
400 NE Mother Joseph Pl.
Vancouver, WA 98664
Cell: 503-407-3817
Email: bstewart1@PeaceHealth.org

- 4. Provide the name, title, address, telephone number, and email address of the consultant authorized to speak on your behalf related to the screening of this application (if any).**

The consultant authorized to speak on behalf of the screening related to this application is:

Jody Carona
Health Facilities Planning & Development
120 1st Avenue West, Suite 100
Seattle, WA 98119
(206) 441-0971
Email: healthfac@healthfacilitiesplanning.com

- 5. Provide an organizational chart that clearly identifies the business structure of the applicant(s).**

An organizational chart for PeaceHealth is included as Exhibit 1.

- 6. Identify all healthcare facilities and agencies owned, operated by, or managed by the applicant or its affiliates with overlapping decision-makers. This should include all facilities in Washington State as well as out-of-state facilities. The following identifying information should be included:**
 - Facility and Agency Name(s)
 - Facility and Agency Location(s)
 - Facility and Agency License Number(s)
 - Facility and Agency CMS Certification Number(s)
 - Facility and Agency Accreditation Status
 - If acquired in the last three full calendar years, list the corresponding month and year the sale became final
 - Type of facility or agency (home health, hospice, other)

PeaceHealth owns, operates and/or manages a total of ten hospitals in three States. PeaceHealth also operates Medicare certified home health and hospice services in Washington, as well as in Oregon and Alaska. Exhibit 2 provides the requested information.

Section 2 PROJECT DESCRIPTION

1. Provide the name and address of the existing agency, if applicable.

PeaceHealth Home Care is an existing agency. The record should reflect that PeaceHealth's Cowlitz County agency was operational prior to home health services requiring CN review. Available records also suggest the agency was grandfathered prior to 1996, the last year that the CN Program granted grandfathered status for home health. This fact was confirmed as recently as September of 2020 by CN Program staff.

After a complaint was filed by another provider, the Program requested that PeaceHealth file a certificate of need. In an abundance of caution, PeaceHealth voluntarily notified the Department of its intent to serve Cowlitz under the Governor's proclamation 20-36. While we disagree with the CN Program's position, we are filing this application to assure that we can continue to serve all eligible home health patients and all communities in Cowlitz County.

PeaceHealth Home Care currently serves a safety net role in Cowlitz County. The County is ranked by the Robert Wood Johnson Foundation as being one of the least healthy counties in Washington (33 out of 39 counties) for health outcomes. The percentage of persons living below poverty in Cowlitz is 28.6% higher than the state average, and the percent enrolled in Medicaid is 36.5% higher.

On July 16, 2021, PeaceHealth Home Care was formally notified by the largest provider of home health in the County that they are limiting their Medicaid census and requiring those patients to accept visits via telehealth. Given the high volume of Medicaid recipients in the County, this limit can have a significant impact on access. In contrast, PeaceHealth Home Care accepts all eligible Medicaid patients. It also accepts all insurance providers, including those that other existing providers limit based on low reimbursement. It is imperative that PeaceHealth Home Care be able to continue to fill the void in home health access; accordingly, we are submitting this certificate of need application.

Historically Cowlitz area hospice and home health services were provided from our Vancouver location at 5400 MacArthur Blvd, Vancouver, 98661-7049. The Cowlitz hospice office location, which is not a subject of this CN and has been documented as a grandfathered agency by the Program, has recently relocated to:

821 Washington Way
Longview, WA, 98632

Upon CN approval, the Cowlitz County home health direct care staff will also be relocated to the Longview office, sharing space with the Cowlitz hospice operations.

2. If an existing Medicare and Medicaid certified home health agency, explain how this proposed project will be operated in conjunction with the existing agency.

PeaceHealth Home Care is already providing Medicare and Medicaid certified home health services in a number of Southwest Washington Counties, including Cowlitz County. The Hospice and Home Health team that will mostly serve Cowlitz County will have offices based out of Cowlitz County, but the agency as a whole will continue to share services, expertise and resources to ensure the most efficient and high quality services are provided throughout its Southwest Washington operations.

3. Provide the name and address of the proposed agency. If an address is not yet assigned, provide the county parcel number and the approximate timeline for assignment of the address.

As described above, an additional office location has recently been created in Cowlitz County for our Cowlitz hospice operations at:

821 Washington Way
Longview, WA, 98632

This office space will be shared with the Cowlitz County home health operations upon CN approval.

The Cowlitz County operations will be operated under the existing in-home services agency license of PeaceHealth Hospice and PeaceHealth Home Care, license # IHS.FS.60331226.

4. Provide a detailed description of the proposed project.

PeaceHealth Home Care seeks CN approval to recognize its Medicare certified/Medicaid eligible home health agency status in Cowlitz County. Patients we serve are those that are home bound and in need of intermittent medical care including skilled nursing care, physical therapy, occupational therapy, or speech language pathology services. These patients typically have had an illness or injury that restricts their ability to leave their place of residence. Patients are referred and admitted to PeaceHealth Home Care from the hospital, other inpatient settings, other providers (i.e.: hospice) and directly from the community.

5. Confirm that this agency will be available and accessible to the entire geography of the county proposed to be served.

PeaceHealth Home Care is available and accessible to individuals regardless of where they reside in Cowlitz County.

6. With the understanding that the review of a Certificate of Need application typically takes at least six to nine months, provide an estimated timeline for project implementation, below:

Event	Anticipated Month/Year
CN Approval	July 2022
Design Complete (if applicable)	Not Applicable
Construction Commenced (if applicable)	Not Applicable
Construction Completed (if applicable)	Not Applicable
Agency Prepared for Survey	Not Applicable
Agency providing Medicare and Medicaid home health services in the proposed county	Already providing services

7. Identify the home health services to be provided by this agency by checking all applicable boxes below. For home health agencies, at least two of the services identified below must be provided.

The following services are, and will continue to be, provided by PeaceHealth Home Care:

<input checked="" type="checkbox"/> Skilled Nursing	<input checked="" type="checkbox"/> Occupational Therapy
<input checked="" type="checkbox"/> Home Health Aide	<input type="checkbox"/> Nutritional Counseling
<input type="checkbox"/> Durable Medical Equipment	<input type="checkbox"/> Bereavement Counseling
<input checked="" type="checkbox"/> Speech Therapy	<input checked="" type="checkbox"/> Physical Therapy
<input type="checkbox"/> Respiratory Therapy	<input type="checkbox"/> IV Services
<input checked="" type="checkbox"/> Medical Social Services	<input type="checkbox"/> Applied Behavioral Analysis
<input type="checkbox"/> Other (please describe)	

8. If this application proposes expanding the service area of an existing home health agency, clarify if the proposed services identified above are consistent with the existing services provided by the agency in other planning areas.

This question is not applicable; this application simply seeks recognition of an existing service area. As stated above, PeaceHealth Home Care is already providing Medicare and Medicaid certified home health services in a number of Southwest Washington Counties, including Cowlitz County.

9. If this application proposes expanding an existing home health agency, provide the county(ies) already served by the applicant and identify whether Medicare and Medicaid services are provided in the existing county(ies).

This question is not applicable; this application simply seeks recognition of an existing service area.

10. Provide a general description of the types of patients to be served by the agency at project completion (age range, diagnoses, etc.).

Currently, patients served are home bound and in need of intermittent medical care including skilled nursing, physical therapy, occupational therapy, or speech language pathology services. These patients are typically in need of short-term, intermittent skilled care following an illness or injury that restricts their ability to leave their place of residence to receive that care. PeaceHealth Home Care is currently serving patients age 18 and over and will continue to do so following this CN review process.

11. Provide a copy of the applicable letter of intent that was submitted according to WAC 246-310-080.

Per our conversation with Eric Hernandez, Certificate of Need Manager, this application will be considered the letter of intent and held for 30 days.

12. Confirm that the agency will be licensed and certified by Medicare and Medicaid. If this application proposes the expansion of an existing agency, provide the existing agency's license number and Medicare and Medicaid numbers.

PeaceHealth Home Care is an existing agency currently serving a number of counties in Southwest Washington, and currently certified by Medicare and Medicaid.

The existing agency license number is: IHS.FS.60331226
The existing Medicare provider number is: 50-0764

Section 3
PROJECT RATIONALE
Need (WAC 246-310-210)

1. List all home health providers currently operating in the planning area.

The list of the in-home home health providers certified to serve Cowlitz County is included in Table 5.

2. Complete the numeric methodology.

PeaceHealth Home Care employed the same methodology that the CN Program has used consistently to project future visits and to render CN decisions. This methodology was included in the *1987 Washington State Health Plan*, and as demonstrated below, it demonstrates need for our existing agency to continue provide services.

Step 1: Estimate the Planning Area’s Population:

Cowlitz County’s population for years 2021-2025, by age group, is depicted in Table 1.

Table 1
Step 1 – Cowlitz County Population Projections

Age Group	2021	2022	2023	2024	2025
0-64	85,843	85,769	85,695	85,621	85,547
65-79	18,407	18,900	19,394	19,887	20,381
80+	5,313	5,570	5,826	6,083	6,340
Total	109,562	110,239	110,915	111,592	112,268

Source: OFM 2017 Projections by Age and County, Medium Series

Step 2: Project Future Home Health Patients

Table 2 shows the result of multiplying the methodology’s specified use rates by age cohort to the County’s population identified in Table 1. The resulting number is the total number of the planning area residents projected to need home health services.

Table 2
Cowlitz County Projected Patients

Age Group	Use Rate Per SHP	2021	2022	2023	2024	2025
0-64	0.005	429	429	428	428	428
65-79	0.044	810	832	853	875	897
80+	0.183	972	1,019	1,066	1,113	1,160
Total		2,211	2,280	2,348	2,416	2,485

Source: Use Rates from State Health Plan

Step 3: Calculate Future Home Health Visits:

At this step, the projected number of patients from Table 2 is multiplied by the projected number of visits by age group specified in the methodology. The sub-totals, by age group, are then added together resulting in the total estimated visits in the Planning Area, by year. Table 3 illustrates the number of visits per year by age group as well as the total number of visits for the planning area.

**Table 3
Projected Cowlitz County Projected Visits**

Age Cohort	2021	2022	2023	2024	2025
0-64 Patients	429	429	428	428	428
Visits per Patient	10	10	10	10	10
Subtotal	4,292	4,288	4,285	4,281	4,277
65-79 Patients	810	832	853	875	897
Visits per Patient	14	14	14	14	14
Subtotal	11,338	11,643	11,947	12,250	12,555
80+ Patients	972	1,019	1,066	1,113	1,160
Visits per Patient	21	21	21	21	21
Subtotal	20,417	21,404	22,389	23,377	24,365
Total	36,048	37,335	38,621	39,908	41,197

Source: Applicant

Step 4: Determine the Gross Number of Home Health Agencies Needed

Consistent with the methodology, this step simply divides the total projected number of visits calculated in Step 3 (Table 3) by 10,000 – the minimum required volumes per home health agency.

**Table 4
Cowlitz County Home Health Agency Need**

	2021	2022	2023	2024	2025
Total Estimated Patient Visits	36,048	37,335	38,621	39,908	41,197
<i>Quotient of 10,000</i>	3.60	3.73	3.86	3.99	4.12

As depicted in Table 4, the methodology identifies a gross need for more than four home health agencies in Cowlitz County by 2025. Step 5 of the methodology (net need) is detailed in response to Question 4 (Table 6).

- 3. If applicable, provide a discussion identifying which agencies identified in response to Question 1 should be excluded from the numeric need methodology and why. Examples for exclusion could include but are not limited to: not serving the entire geography of the planning area, being exclusively dedicated to DME, infusion, or respiratory care, or only serving limited groups.**

PeaceHealth Home Care’s consultant, Health Facilities Planning & Development (HFPD), requested a list of the home health agencies serving Cowlitz County. The listing provided includes five home health agencies that are CN approved.

Of the five agencies provided by the Department, one is the applicant, PeaceHealth Home Care, and one is Kaiser which only serves its own enrollees so shouldn’t be, and has historically not been, counted in supply.

Table 5 identifies the current Medicare certified home health agencies operating in the Service Area. For ease, even though we are currently operating, we have excluded ourselves from supply.

**Table 5
Home Health Agencies Serving Cowlitz County**

Agency Name	Location	CN Approved and Serves Cowlitz County	Counted in Current Supply?
Assured Home Health and Hospice	Lewis	Yes	Yes
Community Home Health and Hospice	Cowlitz	Yes	Yes
Aveanna Healthcare	Clark	Yes	Yes
Kaiser Permanente	Multnomah	Yes	No – serves only Kaiser enrollees
PeaceHealth Homecare	Clark	Yes	No – subject of this application.

Source: CN Program Historical Files and various websites

- 4. Explain why this application is not considered an unnecessary duplication of services for the proposed planning area. Provide any documentation to support the response.**

The response to question 2, numeric need methodology, identifies that there is a need for the four agencies currently serving Cowlitz County, including PeaceHealth Home Care, the subject of this application. The supply was subtracted from gross need in 2025 to estimate net need. As demonstrated in Table 6, the net need is four agencies (Step 5 of the methodology; determining net need).

**Table 6
Unmet Need for Home Health Agencies in Cowlitz County**

Estimated Home Health Agency Gross Need	Existing Medicare Certified/Medicaid Eligible Agencies Counted in Supply	Net Need for Medicare Certified/Medicaid Eligible Agencies
4	3	1

Source: Applicant

- 5. For existing agencies, using the table below, provide the home health agency’s historical utilization broken down by county for the last three full calendar years.**

The historical utilization for PeaceHealth Home Care is in Table 7 below.

**Table 7
PeaceHealth Home Care
Historical Utilization**

Cowlitz County	2018	2019	2020	2021 YTD
Total number of admissions	4	1	189	530
Total number of visits	56	14	2,784	8,284
Average number of visits/patient	14	14	15	16
Other Counties	2018	2019	2020	2021 YTD
Total number of admissions	1,961	2,124	2,071	2,097
Total number of visits	27,602	30,219	30,237	30,391
Average number of visits/patient	14	14	15	14
Total Agency	2018	2019	2020	2021 YTD
Total number of admissions	1,965	2,125	2,260	2,627
Total number of visits	27,658	30,233	33,021	38,675
Average number of visits/patient	14	14	15	15

- 6. Provide the projected utilization for the proposed agency for the first three full years of operation. For existing agencies, also provide the intervening years between historical and projected. Include all assumptions used to make these projections.**

The projected utilization for Cowlitz County is detailed in Table 8:

Table 8
PeaceHealth Home Care Cowlitz County
Projected Admissions and Visits, 2022-2024

	2022	2023	2024
Total number of admissions	530	539	548
Total number of visits	7,977	8,112	8,247
Projected number of visits/patient	15	15	15

Source: Applicant

7. Identify any factors in the planning area that could restrict patient access to home health services.

An insufficient supply of home health agencies restricts patient access and potentially impacts outcomes. The methodology outlined earlier in this section demonstrates need for the current PeaceHealth Cowlitz County operations. Further, and in today’s COVID environment, many patients prefer to receive care at home and to remain in their own homes as long as possible. As a result, it is expected that demand for home health will continue to grow.

PeaceHealth Home Care currently serves a safety net role in Cowlitz County. The County is ranked by the Robert Wood Johnson Foundation as being one of the least healthy counties in Washington (33 out of 39 counties) for health outcomes. The percentage of persons living below poverty in Cowlitz is 28.6% higher than the state average, and the percent enrolled in Medicaid is 36.5% higher.

PeaceHealth has been formally notified by the largest provider of home health in the County that it is limiting its Medicaid census and requiring Medicaid patients to accept visits via telehealth. In contrast, PeaceHealth accepts all eligible Medicaid patients and all insurers. It is imperative that PeaceHealth be able to continue to provide access and fill the Medicaid and underserved void in home health.

8. Explain why this application is not considered an unnecessary duplication of services for the proposed planning area. Provide any documentation to support the response.

For all of the above reasons, and because without PeaceHealth Home Care counted as part of current supply, the area is underserved per the CN methodology for estimating numeric need, this application will not result in an unnecessary duplication of services.

9. Confirm the proposed agency will be available and accessible to the entire planning area.

As noted in response to a previous question, PeaceHealth Home Care will be available and accessible to residents residing throughout the entirety of Cowlitz County.

10. Identify how this project will be available and accessible to underserved groups.

Systemwide, PeaceHealth’s current Community Health Needs Assessments (CHNA) serve as our north star. What we know is that many PeaceHealth patients throughout our three-state delivery system lack support systems. In Cowlitz County, we have identified an opportunity gap referred to as going *beyond the walls of the hospital and deeper into our communities*; going to where the people are. While much of the focus of these efforts is around this opportunity gap of the social, economic, and behavioral factors that impact health, we have learned that going beyond the walls of the hospital is especially important as patients leave our direct care and return home.

Our vision, “*To provide safe, evidence-based, compassionate care every time, every touch,*” also guides our actions. Access to essential health care is a fundamental right. PeaceHealth champions the well-being of all persons without regard to age, gender, health status, creed, sexual orientation, culture, race, ethnicity, economic, immigration, or employment status. This is part of our statement of common values. PeaceHealth Home Care’s existing Non-Discrimination Policy is provided in Exhibit 3.

In addition, PeaceHealth provides health care regardless of ability to pay. In support of this, PeaceHealth Home Care uses the existing PeaceHealth charity care policy, referred to as Bridge Assistance. Bridge Assistance is available for patients whose adjusted gross income falls at or below 400% of the current federal poverty level. According to 2017-2019 charity care data produced by the Department (the latest data currently available), the three-year charity care average for the Southwest Washington region, the region that includes Cowlitz County, was 1.51% of total revenue and 4.82% of adjusted revenue. PeaceHealth St. John Medical Center was above the regional average of charity care for total revenue (1.65%) and adjusted revenue level (6.85%). PeaceHealth Home Care has budgeted a higher level of charity care, 2.2% of total revenue, based on recent experience.

11. Provide a copy of the following policies:

- **Admissions policy**
- **Charity care or financial assistance policy**
- **Patient Rights and Responsibilities policy**
- **Non-discrimination policy**
- **Any other policies directly related with patient access (involuntary discharge)**

The requested policies are included in Exhibit 3.

Section 4
PROJECT RATIONALE
Financial Feasibility (WAC 246-310-220)

- 1. Provide documentation that demonstrates the immediate and long-range capital and operating costs of the project can be met. This should include but is not limited to:**
 - Utilization projections. These should be consistent with the projections provided under the Need section. Include all assumptions.**
 - Pro Forma revenue and expense projections for at least the first three full calendar years of operation using at a minimum the following Revenue and Expense categories identified at the end of this question. Include all assumptions.**
 - Pro Forma balance sheet for the current year and at least the first three full calendar years of operation. Include all assumptions.**
 - For existing agencies proposing addition of another county, provide historical revenue and expense statements, including the current year. Ensure these are in the same format as the pro forma projections. For incomplete years, identify whether the data is annualized.**

The pro forma revenue and expense statement is included in Exhibit 4.

PeaceHealth does not create or maintain balance sheets at the department or program level. While some components of a balance sheet (accounts receivable, for example) are tracked and monitored, most are not. Any balance sheet created for the home health agency would strictly be for CN purposes only. PeaceHealth requests that the CN Program advise in screening if such a balance sheet is needed.

- 2. Provide the following agreements/contracts:**
 - Management agreement**
 - Operating agreement**
 - Medical director agreement**
 - Joint Venture agreement**

PeaceHealth will not have a management agreement, operating agreement, medical director agreement or a joint venture agreement.

3. **Provide documentation of site control. This could include either a deed to the site or a lease agreement for the site.**

If this is an existing home health agency and the proposed services would be provided from an existing main or branch office, provide a copy of the deed or lease agreement for the site. If a lease agreement is provided, the agreement must extend through at least the third full year following the completion of the project. Provide any amendments, addenda, or substitute agreements to be created as a result of this project to demonstrate site control.

If this is a new home health agency site, documentation of site control includes one of the following:

- a. **An executed purchase agreement or deed for the site.**
- b. **A draft purchase agreement for the site. The draft agreement must include a document signed by both entities committing to execute the agreement as submitted following CN approval.**
- c. **An executed lease agreement for at least three years with options to renew for not less than a total of two years.**
- d. **A draft lease agreement. For Certificate of Need purposes, draft agreements are acceptable if the draft identifies all entities entering into the agreement, outlines all roles and responsibilities of the entities, identifies all costs associated with the agreement, includes all exhibits referenced in the agreement. The draft agreement must include a document signed by both entities committing to execute the agreement as submitted following CN approval.**

PeaceHealth's Cowlitz home health service will share space with our Cowlitz hospice operations. The lease for this space is included as Exhibit 5.

Exhibit 6 is documentation from the Cowlitz County Assessor's office demonstrating that the landlord, Pucci Davis properties, LLC, is the owner of the property.

4. **Complete the table below with the estimated capital expenditure associated with this project. Capital expenditure is defined under [WAC 246-310-010\(10\)](#). If you have other line items not listed below, include the definition of the line item. Include all assumptions used to create the capital expenditure estimate.**

There is no capital expenditure because the agency is an existing operation.

- 5. Identify the entity responsible for the estimated capital costs identified above. If more than one entity is responsible, provide breakdown of percentages and amounts for each.**

This question is not applicable.

- 6. Identify the amount of start-up costs expected to be needed for this project. Include any assumptions that went into determining the start-up costs. Start-up costs should include any non-capital expenditure expenses incurred prior to the facility opening or initiating the proposed service. If no start-up costs are expected, explain why.**

As stated above, this application has been requested by the CN Program for our existing operations in Cowlitz County. There will be no start-up costs or start up period. The services will continue to be provided under the existing state license and Medicare and Medicaid certifications.

- 7. Identify the entity responsible for the start-up costs. If more than one entity is responsible, provide a breakdown of percentages and amounts for each.**

This question is not applicable.

- 8. Explain how the project would or would not impact costs and charges for healthcare services in the planning area.**

The approval of this project will assure no negative impact on costs and charges for the community. Conversely, the loss of PeaceHealth Home Care in Cowlitz County could lead to increased costs, due to more care being provided in higher cost post-acute settings, more ED visits and visits to providers post-hospitalization. Home health has been demonstrated to provide a lower cost alternative to hospital and other post-acute care settings¹. And, because of the one-to-one care delivery, it can support a greater sense of autonomy for patients and for the care provider.

- 9. Explain how the costs of the project, including any construction costs, will not result in an unreasonable impact on the costs and charges for healthcare services in the planning area.**

There are no capital costs for this project. Therefore, this question is not applicable.

¹ *The American Journal of Accountable Care*; 7(1): 10-16.

10. Provide the projected payer mix by revenue and by patients by county as well as for the entire agency using the example table below. Medicare and Medicaid managed care plans should be included within the Medicare and Medicaid lines, respectively. If “other” is a category, define what is included in “other.”

Table 9 provides the requested information. Existing and projected sources of revenue are assumed to remain unchanged.

**Table 9
Existing and Projected Sources of Revenue by Payer**

Payer	Percentage of Gross Revenue	Percentage by Patient
Medicare/Medicare Advantage	75.83%	81.36%
Medicaid/Medicaid Managed Care	14.66%	11.41%
Commercial/Other	9.29%	7.14%
Self-Pay	0.22%	0.09%
Total	100.0%	100.0%

Source: Applicant

11. If this project proposes the addition of a county for an existing agency, provide the historical payer mix by revenue and patients for the existing agency. The table format should be consistent with the table shown above.

This project does not propose the addition of a county for an existing agency, so this question is not applicable.

12. Provide a listing of equipment proposed for this project. The list should include estimated costs for the equipment. If no equipment is required, explain.

There is no new equipment proposed for this project.

13. Identify the source(s) of financing (loan, grant, gifts, etc.) and provide supporting documentation from the source. Examples of supporting documentation include: a letter from the applicant’s CFO committing to pay for the project or draft terms from a financial institution.

There is no capital expenditure and hence no financing associated with this project.

14. If this project will be debt financed through a financial institution, provide a repayment schedule showing interest and principal amount for each year over which the debt will be amortized.

This question is not applicable.

15. Provide the most recent audited financial statements for:

- **The applicant, and**
- **Any parent entity responsible for financing the project.**

PeaceHealth Home Care is an unincorporated division of PeaceHealth and does not maintain separate audited financials. Historical financial statements for PeaceHealth are included as Appendix 1.

**SECTION 5
PROJECT RATIONALE
Structure and Process (Quality) of Care (WAC 246-310-230)**

- 1. Provide a table that shows FTEs [full time equivalents] by category for the county proposed in this application. All staff categories should be defined.**

The requested information is included in Table 10:

**Table 10
PeaceHealth Home Care
Cowlitz County
Proposed FTEs and Salaries**

Discipline	Hourly Rate	2022	2023	2024
Nursing	\$49.82	4.00	4.00	4.00
Physical Therapy	\$49.20	3.00	3.00	3.00
Occupational Therapy	\$50.06	1.00	1.00	1.00
Speech Therapy	\$45.58	0.40	0.40	0.40
MSW	\$33.12	0.50	0.50	0.50
Home Health Aide	\$18.88	0.50	0.50	0.50
Admin Specialist III	\$25.91	0.50	0.50	1.00
Assistant Nurse Mgr	\$58.21	1.00	1.00	1.00
Mgr Home Care Svc	\$57.76	0.25	0.25	0.25
Office Manager	\$35.05	0.25	0.25	0.25
Total FTEs		11.4	11.4	11.9

Source: Applicant

- 2. If this application proposes the expansion of an existing agency into another county, provide an FTE table for the entire agency, including at least the most recent three full years of operation, the current year, and the first three full years of operation following project completion. There should be no gaps in years. All staff categories should be defined.**

We are not proposing expansion of an existing agency into another county.

3. Provide the assumptions used to project the number and types of FTEs identified for this project.

The staffing reflects PeaceHealth's actual Cowlitz County operations. PeaceHealth's ratios are in line with PeaceHealth's other home health agencies. It is also well within range of national productivity data by discipline.

4. Provide a detailed explanation of why the staffing for the agency is adequate for the number of patients and visits projected.

As noted in response to the previous question, PeaceHealth based the staffing assumptions on PeaceHealth's actual Cowlitz County operations. PeaceHealth consistently reviews its staffing ratios to assure that they support the needs of the patients served. This practice is currently in place and will continue post CN approval to ensure that the staffing will continue to be sufficient for both the number of patients as well as the number and types of visits projected.

5. If you intend to have a medical director, provide the name and professional license number of the current or proposed medical director. If not already disclosed under 210(1) identify if the medical director is an employee or under contract.

A medical director is not required under Medicare rules. PeaceHealth Home Care provides clinical oversight through the home health manager and assistant nurse managers.

6. If the medical director is/will be an employee rather than under contract, provide the medical director's job description.

This question is not applicable.

7. Identify key staff by name and professional license number, if known. If not yet known, provide a timeline for staff recruitment and hiring (nurse manager, clinical director, etc.)

Table 11 identifies the key staff and the professional licenses for PeaceHealth Home Care.

**Table 11
PeaceHealth Home Care
Key Staff**

Name	Title	Professional License #
Alexandria Dear	Administrator	RN60464272
Katie Wedemeyer, PT	Home Health Manager	PT00010476
Sarah Edgell, RN	Assistant Nurse Manager/Clinical Supervisor	RN60577973

8. For existing agencies, provide names and professional license numbers for current credentialed staff.

Table 12 identifies the current credentialed staff serving Cowlitz County.

**Table 12
PeaceHealth Home Care
Current Credentialed Staff**

	Professional License #
Alyssa Boswell, RN	RN60459794
Lisa Stroebel, RN	RN00129114
Melissa Wright, RN	RN00136128
Roel Beltran, PTA	P160232212
David Mullen, PT	PT60706418
James Blackford, PT	PT60788321
Cheryl Crispin, PT	PT00005199
Sayali Shrotri, PT	PT60487694
Ken Zimmerman, PT	PT00008843
Brittany Bennet-Delgado, OT	OT60893266
Kathy Gordon, OT	OT00003225
Suzanne Rousseau, OT	OT00001972
Erik Schott, OT	OT00004262
Ryan Testori, OT	OT60133993
Lacey Ritter, SLP	LL60654621
Andrea Travers, SLP	LL60132511

9. Describe your methods for staff recruitment and retention. If any barriers to staff recruitment exist in the planning area, provide a detailed description of your plan to staff this project.

The Cowlitz County operations are already staffed. With that said, PeaceHealth will rely on local management in conjunction with our talent acquisition team to recruit any additional qualified staff that may be needed. Requisitions are prepared for talent acquisition review, and talent acquisition works with local management to develop a recruiting strategy for each vacancy. Talent acquisition utilizes various means to identify candidates including current employee referrals, online advertisements, social media postings, and community open house events. When positions prove hard to fill, employee sign on bonuses are utilized to increase the number of candidates. PeaceHealth also utilizes traveling staff as needed in response to census peaks.

10. Identify your intended hours of operation and explain how patients will have access to services outside the intended hours of operation.

PeaceHealth Home Care's business hours are currently, and will continue to be, Monday through Friday from 8:00 a.m. to 5:00 p.m. Staff will be on call 24 hours per day to support patients and families with urgent health care needs.

11. For existing agencies, clarify whether the applicant currently has a method for assessing customer satisfaction and quality improvement for the home health agency.

PeaceHealth Home Care already has a documented method for assessing customer satisfaction and making improvements based on the findings. PeaceHealth has recently implemented several quality initiatives aimed at improving timely access to care. These same initiatives are already, and will continue to be, employed in the Cowlitz County home health program.

Specifically, the Health Home and Community Care Quality Assurance and Performance Improvement (QAPI) Committee meets quarterly to review all quality data associated with customer satisfaction and clinical performance improvement indicators and to review it to previously established targets. After the data is reviewed, QAPI initiatives are developed and implemented to address any customer satisfaction and clinical performance shortcomings. In addition, these QAPI initiatives are monitored until the indicators meet the quality standard target threshold identified by the QAPI committee.

12. For existing agencies, provide a listing of ancillary and support service vendors already in place.

Through its existing operations PeaceHealth Home Care has established working relationships with multiple ancillary and support service providers in the area. PeaceHealth Home Care currently and will continue to work directly with patients' primary care providers to establish the appropriate ancillary and support services needed for individual patients based on patient needs and payer requirements.

13. Identify whether any of the existing ancillary or support agreements are expected to change as a result of this project.

PeaceHealth does not expect any agreements to change as a result of this project.

14. For new agencies, provide a listing of ancillary and support services that will be established.

Since the agency is already operational, please refer to Question 12 above.

15. For existing agencies, provide a listing of healthcare facilities with which the home health agency has working relationships.

Of course, we work closely with our sister entity, PeaceHealth St. John, the sole hospital in Cowlitz County. We also work with every nursing home, and most assisted living and boarding home providers. In addition, we work closely with all of the primary care providers in the area.

16. Clarify whether any of the existing working relationships would change as a result of this project.

Since we are already providing home health services in Cowlitz County we do not expect any working relationships to change.

17. For a new agency, provide the names of healthcare facilities with which the home health agency anticipates it would establish working relationships.

This question is not applicable.

18. Identify whether any facility or practitioner associated with this application has a history of the actions listed below. If so, provide evidence that the proposed or existing facility can and will be operated in a manner that ensures safe and adequate care to the public and conforms to applicable federal and state requirements. [WAC 246-310-230\(3\) and \(5\)](#)

- a. A criminal conviction which is reasonably related to the applicant's competency to exercise responsibility for the ownership or operation of a health care facility; or
- b. A revocation of a license to operate a healthcare facility; or
- c. A revocation of a license to practice as a health profession; or
- d. Decertification as a provider of services in the Medicare or Medicaid program because of failure to comply with applicable federal conditions of participation.

Neither PeaceHealth, PeaceHealth Southwest Medical Center, nor PeaceHealth Home Care, has any history with respect to the items noted in Q18.

19. Provide a discussion explaining how the proposed project will promote continuity in the provision of health care services in the planning area, and not result in an unwarranted fragmentation of services. [WAC 246-310-230](#)

As the *Need* section of this application demonstrates, continuity of care is currently a problem for the sub-set of Cowlitz residents that do not have timely access to home health, particularly the underserved Medicaid population. PeaceHealth Home Care is currently fulfilling this need in Cowlitz County, and this CN will allow PeaceHealth Home Care to continue to provide this care. Upon CN approval PeaceHealth Home Care also plans to locate its direct care staff jointly with its hospice operations in a local office location in Longview, Washington. The *Need* section further demonstrates that another home health agency is warranted in Cowlitz County if PeaceHealth's existing agency is not counted in the supply.

20. Provide a discussion explaining how the proposed project will have an appropriate relationship to the service area's existing health care system as required in [WAC 246-310-230](#).

PeaceHealth Home Care already enjoys strong relationships with many other entities in Cowlitz County. Additional information was provided in response to Question 16. PeaceHealth Home Care will also expand any relationships as needed.

21. The department will complete a quality of care analysis using publicly available information from CMS. If any facilities or agencies owned or operated by the applicant reflect a pattern of condition-level findings, provide applicable plans of correction identifying the facilities current compliance status.

Based on our conversations with CN staff, we understand that it intends to use QCOR and other CMS data and is specifically looking for the applicant to describe any previous condition level findings and resolutions. Neither PeaceHealth Home Care nor any other agency or facility operated by PeaceHealth have any consistent pattern of condition level negative findings.

22. If information provided in response to the question above show a history of condition-level findings, provide clear, cogent and convincing evidence that the applicant can and will operate the proposed project in a manner that ensures safe and adequate care and conforms to applicable federal and state requirements.

This question is not applicable.

SECTION 6
PROJECT RATIONALE
Cost Containment (WAC 246-310-240)

- 1. Identify all alternatives considered prior to submitting this project. At a minimum include a brief discussion of this project versus no project.**

As discussed earlier, PeaceHealth's Cowlitz County agency was operational before Medicare certified home health services required prior CN review. Available records suggest that the agency was grandfathered prior to May 22, 1996. This fact was confirmed as recently as September of 2020 by CN Program staff. However, after a complaint was filed by another provider, the Program requested that PeaceHealth file this application. While we disagree with the CN Program's position, we are filing this application to assure that we can continue to serve all eligible patients and all communities in Cowlitz County. Due to the fact that we are already serving a significant underserved population in Cowlitz County that is not being adequately served by existing providers, we did not consider any other alternatives.

- 2. Provide a comparison of the project with alternatives rejected by the applicant. Include the rationale for considering this project to be superior to the rejected alternatives. Factors to consider can include, but are not limited to: patient access to healthcare services, capital cost, legal restrictions, staffing impacts, quality of care, and cost or operation efficiency.**

Again, as this CN is designed to recognize the existing Medicare/Medicaid hospice services currently being provided by PeaceHealth Home Care, no other options were considered other than continuing to provide these services and meet the needs of otherwise underserved populations. With that said, we have identified in Table 13 the comparison of maintaining these services or discontinuing them.

**Table 13
Advantages and Disadvantages of Options Considered**

	Discontinue Medicare/Medicaid hospice operations in Cowlitz County	Continue Providing Medicare/Medicaid Hospice Services as an Establish Medicare Certified/Medicaid Eligible Home Health Agency
Patient Access to Health Care Services	No ability to improve access, especially for those with access limited due to payer and/or rural location. A licensed-only in-home services agency with a home health service category would not address the majority of access issues because Medicare would not be a payer, and Medicaid requires Medicare certification for contract eligibility.	Greatest ability to continue to address service gaps, especially related to access for Medicaid patients and the underserved, timely admissions for rural and Medicaid patients, and increased and earlier hospice utilization.
Capital Cost	No capital	No capital
Legal Restrictions	None	Certificate of Need deemed to be required by Department
Quality of Care	PeaceHealth will be limited in its ability to address gaps that increase hospital readmissions and that cause delays in home health access.	Provides PeaceHealth with the ability to continue to ensure access to quality home health care through reduced readmissions, address delays in home health access, and other quality metrics.
Cost or Operation Efficiency	Could result in increased costs by reducing access to timely home health services.	Will result in potential reduced costs for patient care when all underserved patients can be discharged timely from the hospital and when hospital readmissions are avoided.

Source: Applicant

3. **If the project involves construction, provide information that supports conformance with WAC 246-310-240(2):**
 - **The costs, scope, and methods of construction and energy conservation are reasonable; and**
 - **The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.**

This project does not involve any construction; therefore, this question is not applicable.

4. **Identify any aspects of the project that will involve appropriate improvements or innovations in the financing and delivery of health services which foster cost containment and which promote quality assurance and cost effectiveness.**

PeaceHealth Home Care fully expects that continuation of our Cowlitz operations will sustain continuity in care delivery by supporting the needs of home health patients and their families. PeaceHealth Home Care, through its existing relationships with other PeaceHealth entities that provide a range of inpatient and outpatient services, has concluded that the continued availability of PeaceHealth Home Care is necessary to continue to reduce rehospitalizations, reduce extended stays in the hospital, increase access while simultaneously assuring quality.

5. **Home Health Agency Tie Breakers (1987 State Health Plan, Volume II, page B35-36)**

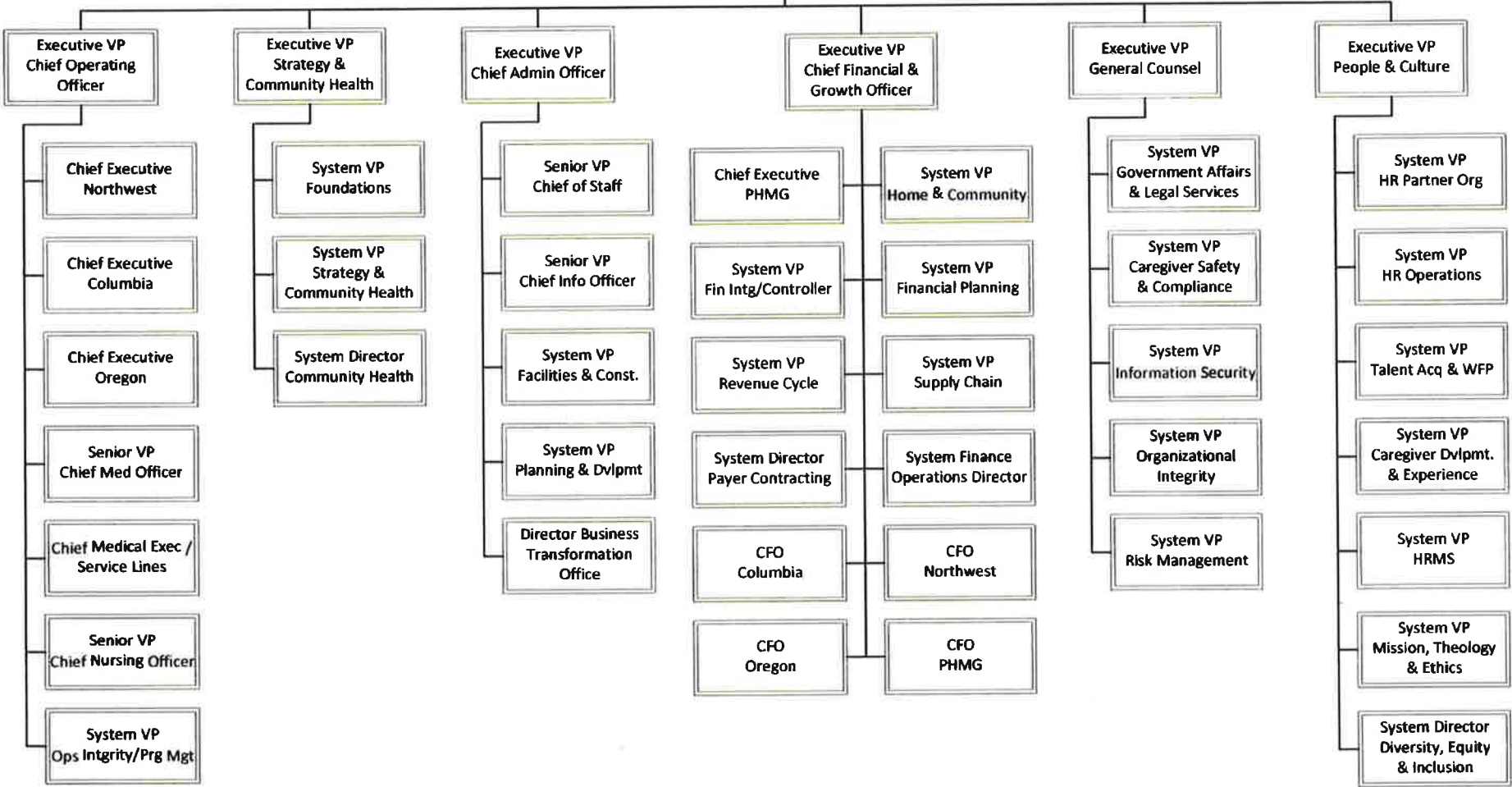
If two or more applicants meet all applicable review criteria and there is not enough need projected for all applications to be approved, the department will approve the agency that better improves patient care, reduces costs, and improves population health through increased access to services in the planning area. Ensure that sufficient documentation and discussion of these items is included throughout the application under the relevant sections.

There is no other letter of intent on file, and we do not expect to be in a comparative review. At this time, this question is not applicable.

Exhibit 1
Organizational Chart

PeaceHealth Board of Directors

PeaceHealth
President &
Chief Executive Officer



Approved: 
 Liz Dunne, President & CEO
 CN_00033

Date: 11/16/2020

Exhibit 2
PeaceHealth Hospital Facility Information

**Exhibit 2
PeaceHealth Hospital Facility Information**

Name	Address	Medicare Provider Number	State License Number	Owned or Managed
PeaceHealth Ketchikan Medical Center	3100 Tongass Avenue Ketchikan, AK 99901	02-1311	GACH-005	Lease Agreement
PeaceHealth St. John Medical Center	1615 Delaware Street Longview, WA 98632	50-0041	HAC.FS.00000026	Owned
PeaceHealth St. Joseph Medical Center	2901 Squalicum Parkway Bellingham, WA 98225-1898	50-0030	HAC.FS.00000145	Owned
PeaceHealth Peace Island Medical Center	1049 San Juan Valley Road Friday Harbor, WA 98250	NA	HAC.FS.60316803	Owned
PeaceHealth Southwest Medical Center	400 N.E. Mother Joseph Place Vancouver, WA 98664	50-0050	HAC.FS.60435729	Owned
PeaceHealth Cottage Grove Community Hospital	1515 Village Drive Cottage Grove, OR 97424	38-1301	40-0223	Owned
PeaceHealth Peace Harbor Hospital	400 Ninth Street Florence, OR 97439	38-1316	14-0711	Owned
PeaceHealth Sacred Heart Medical Center at Riverbend	3333 Riverbend Drive Springfield, OR 97477	38-0033	14-0014	Owned
PeaceHealth Sacred Heart Medical Center University District	1255 Hilyard Street Eugene, OR 97401	38-0033	14-1467	Owned
PeaceHealth United General Medical Center	2000 Hospital Drive Sedro-Woolley, WA 98284	50-1329 Swing Bed 50- Z329	HAC.FS.60417818	Lease Agreement
PeaceHealth Hospice and Homecare	5400 MacArthur Blvd, Vancouver, WA 98661	507064	IHS.FS.60331226	Owned
Sacred Heart Medical Center Home Health/Hospice	677 E 12th Ave, Eugene, OR 97401	38-7023	13-1510	Owned
PeaceHealth Ketchikan Home Health	126 Washington St, Ketchikan, AK 99901	027014	HHA 006	Owned
PeaceHealth Whatcom Hospice and Hospice House	2800-2806 Douglas Ave, Bellingham, WA 9822	50-1537	IHS.FS.00000471	Owned

Exhibit 3
PeaceHealth Policies

NETWORK/DIVISION NAME • PeaceHealth Southwest		Title: Home Health Admission Criteria		
		Dept: PeaceHealth Home Care	Category: HLT-PTC	
Effective: 06/25/2019	Next Review: 06/25/2022	Document #: 403.129.7	Version #: 2	Page #: 1 of 5

SCOPE: Home Health Patient Access and clinical field staff.

PURPOSE: To establish criteria for the admission of patients to Home Health.

POLICY: PeaceHealth Home Health must vet all referrals to determine if the patient meets criteria for the Home Health Medicare benefit. PeaceHealth Home Health follows all regulations set forth by the Centers for Medicare and Medicaid (CMS) in the Conditions of Participation (CoPs) and the Washington Department of Health Administrative Codes (WACs).

RELATED DOCUMENTS, RESOURCES, & REFERENCES:

- Regulatory Agency

HELP: For questions about this policy, or assistance with understanding your obligations under this policy, please contact your manager.

End of Policy

Any pages after this page contain only data and tracking information about the development and life cycle management of this document. They do not contain information necessary for caregivers to do their job or comply with this policy.

NETWORK/DIVISION NAME • PeaceHealth Southwest	Title: Patient Admission Criteria			
	Dept: PeaceHealth Home Care		Category: HLT-PTC	
	Effective: 06/25/2019	Doc#: 403.129.7	V#: 2	Page #: 2 of 2

ORIGINAL VERSION

		Date:
Author:	Mika Johnson, Clinical Manager, HomeCare Southwest	NA
Responsible Party:	Kimberly Malen, Clinical Manager, HomeCare Southwest	NA
Reviewed By:		
Approved By:		
Replaces:		

REVIEWS

(*NC = No Changes, MC = Making Changes)

V#:	Reviewer:	Facility:	Changes*		Date:
			NC	MC	
1	Kimberly Malen RN, Clinical Manager	Home Care Southwest	X		8/28/2015

REVISIONS

V#: 1		Date:
Responsible Party:	Judy Raimo, Service Line Director, Care Management, HomeCare and Hospice / Kim Malen RN, Clinical Manager HomeCare	
Revised By:	Kama Ferryman, Clinical Value Improvement Consultant, HCSW	06/25/2014
Approved By:	PAQC	9/17/2014
Revision Summary:	Converted to new policy numbering system	
Replaces:	This version never uploaded so is staying "v1".	

V#: 2		Date:
Responsible Party:	Lisa Willts, Home Care Manager	NA
Revised By:	Lisa Willts, Home Care Manager	06/20/2019
Approved By:	John Singletary, Director of Home Services	06/25/2019
Revision Summary:	Updated to current practice.	
Replaces:	V1	

V#:		Date:
Responsible Party:		NA
Revised By:		
Reviewed By:		
Approved By:		
Revision Summary:		
Replaces:		

<i>Title</i>	Non-Discrimination Policy	<i>Policy No.</i>	900.1.399
<i>Department</i>	Risk Management	<i>Page No.</i>	1 of 3
<i>Approved By</i>	System VP Risk Management	<i>Effective Date</i>	04/03/2014
<i>Last Review</i>	10/29/2019	<i>Next Review</i>	10/29/2022

SCOPE

This policy applies to all PeaceHealth settings and services:

- | | | |
|--|--|---|
| <input checked="" type="checkbox"/> Cottage Grove Medical Center | <input checked="" type="checkbox"/> Peace Island Medical Center | <input checked="" type="checkbox"/> St. John Medical Center |
| <input checked="" type="checkbox"/> Ketchikan Medical Center | <input checked="" type="checkbox"/> Sacred Heart River Bend | <input checked="" type="checkbox"/> St. Joseph Medical Center |
| <input checked="" type="checkbox"/> Peace Harbor Medical Center | <input checked="" type="checkbox"/> Sacred Heart University District | <input checked="" type="checkbox"/> United General Medical Center |
| <input checked="" type="checkbox"/> PeaceHealth Medical Group | <input checked="" type="checkbox"/> Southwest Medical Center | <input checked="" type="checkbox"/> System Services Center |
| <input checked="" type="checkbox"/> PeaceHealth at Home | <input checked="" type="checkbox"/> PeaceHealth Labs | <input checked="" type="checkbox"/> Ketchikan Long Term Care |

PURPOSE

The purpose of this policy is to ensure that all PeaceHealth Patients and visitors are treated in a welcoming, equitable and nondiscriminatory manner, consistent with applicable federal and state laws.

POLICY

It is the policy of PeaceHealth, a recipient of federal financial assistance, that Patients are provided with equitable services in a manner that respects, protects, and promotes Patient rights. PeaceHealth does not exclude, deny benefits to, or otherwise discriminate against any person on the basis of age, color, creed, disability, ethnicity, gender, gender identity or expression, marital status, national origin, race, religion, sex, sexual orientation, veteran or military status or any other basis prohibited by federal or state law. This applies in admission to, participation in, or receipt of the services and benefits under any of its programs and activities, whether carried out by PeaceHealth directly or through a contractor or any other entity with which PeaceHealth arranges to carry out its programs and activities.

This statement is in accordance with the provisions of Title VI of the Civil Rights Act of 1964, Section 504 of the Rehabilitation Act of 1973, the Age Discrimination Act of 1975, Section 1557 of the Patient Protection and Affordable Care Act of 2010, and Regulations of the U.S.

Department of Health and Human Services issued pursuant to these statutes at Title 45 Code of Federal Regulations Parts 80, 84, 91, and 92.

- Any Patient or visitor who believes they have been subjected to unlawful discrimination may file a complaint using PeaceHealth’s Patient Complaint and Grievance Procedure.
- PeaceHealth does not retaliate against any person who in good faith reports discrimination, files a complaint, or cooperates in an investigation of discrimination.
- PeaceHealth’s System Director of Risk Management or their designee, in conjunction with Organizational Integrity, Mission Services, Learning & Development and/or other appropriate departments, is responsible for coordinating compliance with this Policy, including providing appropriate notice of and training to this Policy. The System Director of Risk Management serves as the Section 504 and Section 1557 Coordinator.
- PeaceHealth determines eligibility for and provides services, financial aid, and other benefits to all Patients in a similar manner, without subjecting any individual to Unlawful Discrimination.
- Patients are informed of their right to receive services and visitors whom the Patient designates free from Unlawful Discrimination.
 - PeaceHealth also notifies Patients of their right to withdraw or deny consent for visitors at any time.
 - PeaceHealth affords such visitors visitation privileges consistent with the Patient’s preferences and according to PeaceHealth visitor policies and procedures.
- PeaceHealth Caregivers address Patient and/or visitor discrimination complaints by:
 - Advising the complainant that they may report the problem to the facility’s System Director of Risk Management/Designee and do so without fear of reprisal.
 - Following PeaceHealth’s Patient Complaint and Grievance Policy.
- PeaceHealth makes appropriate arrangements to ensure that persons with disabilities are provided reasonable accommodations if needed to participate in this complaint process.
 - The Section 504/1557 Coordinator is responsible for arranging necessary accommodations.
- The availability and use of PeaceHealth’s complaint process does not prevent a person from filing a complaint of discrimination with the U.S. Department of Health and Human Services Office for Civil Rights.
- Any person filing a Section 1557 grievance may appeal the decision(s) of the Section 1557 Coordinator by writing to the Chief Executive (CE) of the facility within 15 days of receiving the Section 1557 Coordinator’s decision. The CE issues a written decision in response to the appeal no later than 30 days after its filing.

- Contact Person/Section 504 Coordinator/Section 1557 Compliance Coordinator:
 - PeaceHealth System Director of Risk Management
 - Telephone number: 360-729-1000
 - TDD or State Relay number: 9-711 (TTY)

DEFINITIONS

Coordinator: The PH Caregiver who serves as the Section 504 and Section 1557 point person.

Equitable: All individuals have access to high quality, culturally and linguistically appropriate care in a timely manner. Protected class is not a predictor for access and clinical outcomes.

Patient: For the purpose of this policy, patient means an individual receiving care at a PeaceHealth facility or their health care representative.

Protected classes: Age, color, creed, disability, ethnicity, gender, gender identity or expression, marital status, national origin, race, religion, sex, sexual orientation, veteran or military status or any other class prohibited by federal or state law.

HELP

Further information may be obtained by contacting your Community Risk Manager.

RELATED MATERIAL

Patient Complaint and Grievance Policy and Procedure

APPROVALS

Initial Approval:

President and CMO approved on April 3, 2014

Subsequent Review/Revision(s):

System Director of Risk Management approved revision April 29, 2015

Legal reviewed July 14, 2016

System Policy Committee approved July 26, 2016

Risk and Legal revised October 24, 2019

System VP Risk Management approved October 29, 2019

For a complete history of collaborations and approvals, please check Workflow History or contact your policy coordinator.

<i>Title</i>	Financial Assistance Policy	<i>Policy No.</i>	900.1.262
<i>Department</i>	Revenue Cycle / Patient Financial Services	<i>Effective Date</i>	07/01/2019
<i>Approved By</i>	PeaceHealth Board of Directors	<i>Page Number</i>	1 of 8
<i>Last Review</i>	06/22/2020	<i>Next Review</i>	06/22/2023

SCOPE

This policy applies to the PeaceHealth Divisions (PHDs), checked below:

- | | | |
|--|--|---|
| <input checked="" type="checkbox"/> Cottage Grove Medical Center | <input checked="" type="checkbox"/> Peace Island Medical Center | <input checked="" type="checkbox"/> St. John Medical Center |
| <input checked="" type="checkbox"/> Ketchikan Medical Center | <input checked="" type="checkbox"/> Sacred Heart River Bend | <input checked="" type="checkbox"/> St. Joseph Medical Center |
| <input checked="" type="checkbox"/> Peace Harbor Medical Center | <input checked="" type="checkbox"/> Sacred Heart University District | <input checked="" type="checkbox"/> United General Medical Center |
| <input checked="" type="checkbox"/> PeaceHealth Medical Group | <input checked="" type="checkbox"/> Southwest Medical Center | <input checked="" type="checkbox"/> System Services Center |

PURPOSE

The purpose of this policy is to provide information about Financial Assistance programs offered by PeaceHealth that assist guarantors, provide patients with medical management, and support the financial stability of PeaceHealth.

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POLICY

It is the Policy of PeaceHealth to ensure a socially just practice for providing emergency or other medically necessary care and comply with federal and state laws and regulations relating to emergency medical services and patient financial assistance, including but not limited to Section 1867 of the Social Security Act, Section 501(r) of the Internal Revenue Code, RCW 70.170.060, and WAC Ch. 246-453.

Printed copies of this document may not be the most current version. Use caution when relying on such versions for official purposes. Current versions can be found on Policy Hub.

Template Revised: 01/09/2018

<i>Title</i>	Financial Assistance Policy	<i>Policy No.</i>	900.1.262
<i>Department</i>	Revenue Cycle / Patient Financial Services	<i>Effective Date</i>	07/01/2019
<i>Approved By</i>	PeaceHealth Board of Directors	<i>Page Number</i>	2 of 8
<i>Last Review</i>	06/22/2020	<i>Next Review</i>	06/22/2023

1. Financial Assistance Overview

- 1.1 Signage and brochures informing patients and/or guarantors of PeaceHealth's financial counseling programs and financial assistance are available at appropriate access areas, including registration, and are also available in electronic format on peacehealth.org.
- 1.2 Financial assistance information is provided at least annually to community agencies such as local health departments, Medicaid offices, social service agencies, and physician practices.
- 1.3 Guarantors may apply for financial assistance at any time. If applicable, extraordinary collection actions (ECAs) will be suspended while an application is being reviewed.
- 1.4 In accordance with PeaceHealth policy, emergent care is never delayed by an assistance determination or by requests for financial or other information regarding ability to pay. (Emergency Medical Treatment and Labor Act [EMTALA] Compliance Policy #ADM-0733)
- 1.5 Financial Assistance is secondary to all available sources of payment including, but not limited to:
 - 1.5.1 Insurance
 - 1.5.2 Third party liability payers
 - 1.5.3 Government programs
 - 1.5.4 Outside agency programs
 - 1.5.5 Health savings accounts
- 1.6 Financial Assistance is granted only for emergent or medically necessary care.
- 1.7 Information regarding PeaceHealth's billing and collections practices, including the description of actions PeaceHealth hospitals may take in the event of nonpayment, can be found in the separate Patient Billing and Collections Policy and Procedure which is available free of charge on peacehealth.org or a free mailed copy can be requested by calling Customer Service at 877-202-3597.

2. Limit on Charges for Guarantors Eligible for Financial Assistance

- 2.1 Guarantors eligible for financial assistance under the Financial Assistance Policy will not be personally responsible for more than the amounts generally billed (AGB), as defined in Treasury Regulation Section 1.501(r)-1(b)(1), by the applicable PeaceHealth hospital for the emergency or medically necessary services received.
- 2.2 PeaceHealth calculates each hospital facility's amounts generally billed (AGB) by using the "look-back" method which uses claims for emergency and other medically necessary care from Medicare and all commercial insurers over a 12-month period.

<i>Title</i>	Financial Assistance Policy	<i>Policy No.</i>	900.1.262
<i>Department</i>	Revenue Cycle / Patient Financial Services	<i>Effective Date</i>	07/01/2019
<i>Approved By</i>	PeaceHealth Board of Directors	<i>Page Number</i>	3 of 8
<i>Last Review</i>	06/22/2020	<i>Next Review</i>	06/22/2023

2.3 A free copy of the AGB calculation description and percentages will be provided via mail upon request. Requests may be made in person at any Patient Registration department or by calling Customer Service at 877-202-3587.

3. Financial Assistance Application Process

3.1 Financial Assistance applications are included with each patient statement, or can be obtained by request at all Registration areas, by downloading an application from peacehealth.org, or by contacting Customer Service at 877-202-3597.

3.2 Consideration for financial assistance occurs once a complete application has been submitted to PeaceHealth.

3.3 Information required for a complete application:

3.3.1 List of family members in household

3.3.2 Household gross monthly income (income before taxes and deductions)

3.3.3 Signature and date

3.3.4 Acceptable documentation of income attached

3.4 Acceptable documentation of income must include one of the following:

3.4.1 A "W-2" withholding statement

3.4.2 Pay stubs

3.4.3 An income tax return from the most recently filed calendar year

3.4.4 Forms approving or denying eligibility for Medicaid and/or state-funded medical assistance

3.4.5 Forms approving or denying unemployment compensation

3.4.6 Written statements from employers or welfare agencies

3.4.7 In the absence of the above forms of income documentation, a written and signed statement from the Guarantor will be accepted as proof of income.

3.5 Completed applications can be sent to PeaceHealth Patient Financial Services:

3.5.1 By Mail: 1115 SE 164th Ave., Dept 334 (FAP), Vancouver, WA 98683

3.5.2 By Fax: 360-729-3047

3.6 If an incomplete application is received, a letter is sent explaining what is required to complete the application.

3.6.1 If requested information is not returned within 30 days, the application is denied.

3.6.2 Additional time to secure required documentation may be granted upon request.

3.7 Financial Assistance is granted in accordance with the following table:

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Federal Poverty Percentages		Financial Assistance Allowance
From	To	
0	300%	100%
301	350%	85%
351	400%	70%

- 3.8 Complete applications are processed within 30 calendar days of receipt.
- 3.9 If approved, a letter is sent including the amount of assistance applied to outstanding guarantor balances, any balances not covered, and the dates of service for which eligible services will be covered.
- 3.10 If denied, a letter is sent including the reason for denial and instructions for appealing.
- 3.11 The Vice President of Revenue Cycle or designee has the authority to make final determination and exceptions.

4. Financial Assistance Appeals

- 4.1 Responsible parties may appeal the determination of eligibility for financial assistance by submitting additional written information, such as income verification or explanations of extenuating circumstances, to PeaceHealth Patient Financial Services within 30 days of the denial notification.
- 4.2 Collection activities for accounts under appeal are pended until a determination is made.
- 4.3 Appeal determination will be made, and notification sent, within 30 days.
- 4.4 The Vice President of Revenue Cycle or designee has the authority to make the final determination for all appeals.
- 4.5 For PeaceHealth facilities located in the state of Washington, when a financial assistance application is denied and the appeal upheld, a copy of the paperwork is provided to the Washington State Department of Health.

5. Presumptive Financial Assistance Eligibility

- 5.1 Other sources of information, such as estimated income and family size provided by a predictive model, may be used to make an individual assessment of financial need.
 - 5.1.1 This information will enable PeaceHealth to proactively assist patients with financial obligations by utilizing the best estimates available in the absence of information provided directly by the patient.
 - 5.1.2 Presumptive screening provides benefit to the community by enabling PeaceHealth to systematically identify financially needy patients who may not

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have been able to complete a traditional application or provide appropriate documentation.

5.2 For the purpose of helping financially needy patients, PeaceHealth may utilize a third-party to review the patient's information to assess financial need.

5.2.1 This review utilizes a healthcare industry-recognized, predictive model that is based on public record databases.

5.2.1.1 The model incorporates public record data to calculate a socio-economic and financial capacity score that includes estimates for income, resources, and liquidity.

5.2.1.2 The model's rule set is designed to assess each patient to the same standards and is calibrated against historical financial assistance approvals for PeaceHealth.

5.2.1.3 The predictive model enables PeaceHealth to assess whether a patient is characteristic of other patients who have historically qualified for financial assistance under the traditional application process.

5.2.1.4 Information from the predictive model may be used by PeaceHealth to grant presumptive eligibility in cases where there is an absence of information provided directly by the patient. Where efforts to confirm coverage availability have been unsuccessful, the predictive model provides a systematic method to grant presumptive eligibility to financially needy patients.

5.3 In the event a patient does not qualify for the highest level of financial assistance under the presumptive rule set, the patient may still provide the requisite information and be considered under the traditional financial assistance application process.

5.4 In addition to the use of the predictive model outlined above, presumptive financial assistance will also be provided at the 100% charity care level in the following situations:

5.4.1 Deceased patients where PeaceHealth has verified there is no estate and no surviving spouse.

5.5 Patients who are eligible for Medicaid from another state in which PeaceHealth is not a participating provider and does not intend to become a participating provider.

5.6 Patients who qualify for other government assistance programs, such as food stamps, subsidized housing, or Women Infants and Children Program (WIC).

5.7 Patients who are confirmed to be homeless with no available source of payment.

6. Additional Assistance Provided

6.1 Patients without insurance, or insured patients receiving services not covered by insurance, are awarded an uninsured discount.

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6.1.1 In accordance with PeaceHealth Policy, uninsured discounts are granted only for emergent or medically necessary care. (Uninsured Discount Policy #BUS-1131)

7. Providers Subject to PeaceHealth’s Financial Assistance Policy

- 7.1 PeaceHealth’s decision to provide financial assistance in no way affects the guarantor’s financial obligations to physicians or other healthcare providers, unless such physicians or other healthcare providers are providing care to patients pursuant to a contract with PeaceHealth that requires accepting financial assistance decisions made by PeaceHealth.
- 7.2 A list of physicians or other healthcare providers who have agreed to comply with the Financial Assistance Policy and Procedure can be found by visiting peacehealth.org or by calling Customer Service at 877-202-3597 and requesting a copy.

DEFINITIONS

Extenuating Circumstances/Catastrophic: Consideration of additional factors in determining the patient portion of an account qualifying for less than 100% coverage under the Financial Assistance Policy. Factors include: remaining balance after all reductions, household income, and medical status of patient/family.

Extraordinary Collection Actions (ECA): (i) actions requiring a legal or judicial process, including but not limited to placing a lien on property, attaching bank accounts, filing civil action under contract law, or garnishing wages; and (ii) reporting adverse information to a credit agency/bureau. PeaceHealth or its contracted collection agencies may take the listed actions for unpaid accounts subject to any court-required approvals.

Financial Assistance: A PeaceHealth program through which emergent, medically necessary, and some preventative services are provided by PeaceHealth at a reduced cost or without charge when it has been determined that payment for those services cannot be obtained through insurance, outside agencies, or private means.

Financial Counseling: A process of working with our patients in a compassionate and caring manner to identify options for resolving their PeaceHealth financial obligations.

Guarantor: A person age 18 or over, regardless of marital status, who has legal financial responsibility for services provided.

Household: Persons related by birth, marriage, or adoption residing in the home.

- A household does not include any of the following people:
- Roommates
- Guarantor’s unmarried partner, unless they have a child together and the child is the patient

Income: Total cash receipts before taxes derived from wages and salaries, welfare payments, Social Security payments, strike benefits, unemployment or disability benefits, child support, alimony, and net earnings from business and investment activities paid to members of the household.

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Medically Necessary Care: Care that, in accordance with clinically accepted parameters, is reasonably calculated to:

- Prevent the onset or worsening of an illness, condition, or disability;
- Establish a diagnosis;
- Provide palliative, curative, or restorative treatment for physical, behavioral, and/or mental health conditions; and/or
- Assist the individual to achieve or maintain functional capacity in performing daily activities, taking into account both the functional capacity of the individual and those functional capacities that are appropriate for individuals of the same age.

Each service is performed in accordance with national standards of medical practice generally accepted at the time the services are rendered, and must be sufficient in amount, duration, and scope to reasonably achieve its purpose. Course of treatment may include observation only, or when appropriate, no treatment at all.

Patient: An individual receiving care at a PHD.

PeaceHealth Division (PHD): A medical center, clinic, operating unit, or operating division of PeaceHealth that maintains day-to-day management oversight of a designated portion of PeaceHealth System operations. PHDs may be based on a geographic market or dedication to a service line or business.

Service Area: The County in which the PeaceHealth entity/provider is located.

HELP

Further information may be obtained by contacting Patient Financial Services.

RELATED MATERIAL

PeaceHealth Documents

- BUS-0427 Patient Billing and Collections Policy
- BUS-0428 Patient Billing and Collections Procedure
- ADM-0733 Emergency Medical Treatment and Labor Act Compliance Policy
- ADM-0874 Emergency Medical Treatment and Labor Act Compliance Procedure

Reference Materials

- PeaceHealth, www.peacehealth.org, 05-02-18.
- Forms:
 - Financial Assistance Application
 - Plain Language Summary

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APPROVALS

Initial Approval

PeaceHealth Board of Directors, May 26, 2016.

System Policy Committee, June 28, 2016.

Subsequent Review/Revision(s)

- System Policy Committee approved revision July 26, 2016.
- PeaceHealth Board of Directors approved revision on June 28, 2018.
- Washington State Department of Health approved revision on July 12, 2018.
- VP of Revenue Cycle approved review June 17, 2019.
- EVP/CFO approved review June 17, 2019.
- Sys Dir Revenue Cycle reviewed June 5, 2020.
- Non-Clinical Policy Steering Committee approved renewal June 22, 2020.

Exhibit 4
Pro Forma Financials

	Year 1	Year 2	Year 3	TOTAL
Volumes				
Patients Served	530	539	548	1,617
Actual Visits	7,977	8,112	8,247	24,336
Gross revenue				
Medicare/Medicare Managed Care	1,965,179	1,999,829	2,029,530	5,994,538
Medicaid/Medicaid Managed Care	374,230	381,868	389,505	1,145,603
Commercial/Other	240,288	246,221	249,187	735,696
Self pay	5,291	5,291	5,291	15,873
Total gross revenue	2,584,988	2,633,209	2,673,513	7,891,710
Contractual Allowances	834,487	850,054	863,065	2,547,606
Charity	2,853	2,906	2,951	8,710
Bad Debt	66,272	67,508	68,541	202,321
Total deductions	903,612	920,468	934,557	2,758,637
Net patient revenue	1,681,376	1,712,741	1,738,956	5,133,073
Other revenue	-	-	-	-
Total operating revenue	1,681,376	1,712,741	1,738,956	5,133,073
Recurring expenses				
Nursing	414,502	414,502	414,502	1,243,507
Physical Therapy	307,008	307,008	307,008	921,024
Occupational Therapy	104,125	104,125	104,125	312,374
Speech Therapy	37,923	37,923	37,923	113,768
MSW	34,445	34,445	34,445	103,334
Home Health Aide	19,635	19,635	19,635	58,906
Admin Specialist III	26,946	26,946	53,893	107,786
Assistant Nurse Mgr	121,077	121,077	121,077	363,230
Mgr Home Care Svc	30,035	30,035	30,035	90,106
Office Manager	18,226	18,226	18,226	54,678
Benefits	309,553	309,553	321,888	940,993
Total Salaries and Benefits	1,423,475	1,423,475	1,462,757	4,309,706
Medical Supplies	34,983	35,577	36,171	106,730
Supplies & Non-Medical Equip	3,435	3,494	3,552	10,481
Answering Svc	88	89	91	267
Travel	48,350	49,171	49,992	147,513
Utilities	179	179	179	536
Dues & Subscription	2,131	2,131	2,131	6,392
Other Misc Expenses	400	400	400	1,200
Occupancy Cost	40,136	40,136	40,136	120,408
Total recurring expense	129,701	131,176	132,651	393,527
Total operating expense	1,553,176	1,554,650	1,595,407	4,703,233
EBITDA	128,200	158,090	143,549	429,840
<i>EBITDA % of total operating revenue</i>	7.6%	9.2%	8.3%	8.4%
Interest	-	-	-	-
Depreciation	-	-	-	-
Operating Income	128,200	158,090	143,549	429,840
<i>Operating Margin</i>	7.6%	9.2%	8.3%	8.4%
Overhead Allocated Expenses - (IT, Legal, Insurance, A	117,696	119,892	121,727	359,315
Net Operating Income	10,504	38,198	21,822	70,525

Exhibit 5
Lease



Woodford Commercial Real Estate
 208 Vine St
 Kelso WA 98626
 Phone: 360.501.5500
 Fax: 360.501.6051

Commercial Brokers Association
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Form ST NNN
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LEASE AGREEMENT
 Single Tenant for Entire Parcel - NNN

THIS LEASE AGREEMENT (the "Lease") is entered into and effective as of the date of the last party to sign below, between **Pucci Davis Properties, LLC** ("Landlord"), and **PeaceHealth, a Washington Nonprofit Corporation** ("Tenant"). Landlord and Tenant agree as follows:

1. LEASE SUMMARY.

- a. **Leased Premises.** The leased commercial real estate (the "Premises") consists of the real property legally described on attached Exhibit A, and all improvements thereon, and commonly described as **821 Washington Way, Longview, WA 98632** with approximately **6,740** rentable square feet consisting of the entirety of the building.
- b. **Lease Commencement Date.** The term of this Lease shall be for a period of **62 months** and shall commence on **September 1st, 2021** or such earlier or later date as provided in Section 3 (the "Commencement Date").
- c. **Lease Termination Date.** The term of this Lease shall terminate at midnight on **October 31st, 2026** or such earlier or later date as provided in Section 3 (the "Termination Date"). Tenant shall have no right or option to extend this Lease, unless otherwise set forth in a rider attached to this Lease (e.g., Option to Extend Rider, CBA Form OR).
- d. **Base Rent.** The base monthly rent shall be (check one): _____, or according to the Rent Rider attached hereto ("Base Rent"). Rent shall be payable at Landlord's address shown in Section 1(h) below, or such other place designated in writing by Landlord.
- e. **Prepaid Rent.** Upon execution of this Lease, Tenant shall deliver to Landlord the sum of **\$11,686.67** as prepaid rent and Triple Net charges, to be applied to the Rent due for the first paid month of the Lease (Base Rent for August 2021 and Triple Net charges for the months June, July, and August 2021).
- f. **Security Deposit.** Upon execution of this Lease, Tenant shall deliver to Landlord the sum of \$ _____ to be held as a security deposit pursuant to Section 5 below. The security deposit shall be in the form of (check one):
 cash or cashier's check.
- g. **Permitted Use.** The Premises shall be used only for **Home Hospice Care and other related office or medical uses** and for no other purpose without the prior written consent of Landlord (the "Permitted Use").
- h. **Notice and Payment Addresses.**
 Landlord: Pucci Davis Properties, LLC / 842 Washington Way Suite 110 Longview, WA 98632 / 360-957-5626 (Bob) & 360-957-7653 (Eric) / bobd@lifemort.com & eric@newrockhomes.com
 Tenant: PeaceHealth, a Washington Nonprofit Corporation / Attn: Laurie Dougher / 1115 SE 164th Avenue Ste. 326 Vancouver, WA 98683 / 360-729-1874 (Office) 360-772-9874 (Cell) / LDougher@peacehealth.org

2. PREMISES.

- a. **Lease of Premises.** Landlord leases to Tenant, and Tenant leases from Landlord the Premises upon the terms specified in this Lease.
- b. **Acceptance of Premises.** Except as specified elsewhere in this Lease, Landlord makes no representations or warranties to Tenant regarding the Premises, including the structural condition of the Premises or the condition of all mechanical, electrical, and other systems on the Premises. Except for any tenant improvements to be completed by Landlord as described on attached Exhibit B (the "Landlord's Work"), Tenant shall be responsible for performing any work necessary to bring the Premises into a condition satisfactory to Tenant. By signing this Lease, Tenant acknowledges that it has had an adequate opportunity to investigate the Premises; acknowledges responsibility for making any corrections, alterations, and repairs to the Premises (other than the Landlord's Work); and acknowledges that the time needed to complete any such items shall not delay the Commencement Date.
- c. **Tenant Improvements.** Attached Exhibit B sets forth all Tenant's Work, if any, and all tenant improvements to be completed by Tenant (the "Tenant's Work"), if any, that will be performed on the Premises. Responsibility for design, payment, and performance of all such work shall be as set forth on attached Exhibit B. If Tenant fails to notify Landlord of any defects in the Landlord's Work within thirty (30) days of delivery of possession to Tenant, Tenant shall be deemed to have accepted the Premises in their then condition. If Tenant discovers any major defects in the Landlord's Work during this 30-day period that would prevent Tenant from using the Premises for the Permitted Use, Tenant shall notify Landlord in writing and the Commencement Date shall be delayed until after Landlord has notified Tenant that Landlord has corrected the major defects and Tenant has had five (5) days to inspect and approve the Premises.

 _____
 Landlord's Initial Tenant's Initials



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The Commencement Date shall not be delayed if Tenant's inspection reveals minor defects in the Landlord's Work that will not prevent Tenant from using the Premises for the Permitted Use. Tenant shall prepare a punch list of all minor defects in Landlord's Work and provide the punch list to Landlord, which Landlord shall promptly correct.

3. TERM. The term of this Lease shall commence on the Commencement Date specified in Section 1, or on such earlier or later date as may be specified by written notice delivered by Landlord to Tenant by means outlined in Section 25 advising Tenant that the Premises are ready for possession and specifying the Commencement Date, which shall not be less than _____ days (thirty (30) days if not filled in) following the date of such notice. For the avoidance of doubt, any earlier Commencement Date as described in this paragraph shall not be confused with early occupancy, as described in subsection a. directly below.


a. **Early Occupancy.** If Landlord permits Tenant to occupy the Premises prior to the Commencement Date specified in Section 1, then such early occupancy shall not advance the Commencement Date or the Termination Date set forth in Section 1, but otherwise all terms and conditions of this Lease shall nevertheless apply during the period of early occupancy before the Commencement Date. **Tenant shall have early access to the Premises two (2) weeks prior to the Lease Commencement Date to install equipment and furnishing. The Premises shall be at or near substantial completion at this time. Early access shall be at no charge to the Tenant and shall not trigger commencement of the Lease. Tenant shall not interfere with Contractors finishing the space during the early access period.**

b. **Delayed Possession.** Landlord shall act diligently to make the Premises available to Tenant; provided, however, neither Landlord nor any agent or employee of Landlord shall be liable for any damage or loss due to Landlord's inability or failure to deliver possession of the Premises to Tenant as provided in this Lease. If possession is delayed, the Commencement Date set forth in Section 1 shall also be delayed. In addition, the Termination Date set forth in Section 1 shall be modified so that the length of the Lease term remains the same. If Landlord does not deliver possession of the Premises to Tenant within **sixty (60) days** (sixty (60) days if not filled in) after the Commencement Date specified in Section 1, Tenant may elect to cancel this Lease by giving written notice to Landlord within ten (10) days after such time period ends. If Tenant gives such notice of cancellation, the Lease shall be cancelled, all prepaid rent and security deposits shall be refunded to Tenant, and neither Landlord nor Tenant shall have any further obligations to the other. The first "Lease year" shall commence on the Commencement Date and shall end on the date which is twelve (12) months from the end of the month in which the Commencement Date occurs. Each successive Lease year during the initial term and any extension terms shall be twelve (12) months, commencing on the first day following the end of the preceding Lease year. To the extent that the tenant improvements are not completed in time for the Tenant to occupy or take possession of the Premises on the Commencement Date due to the failure of Tenant to fulfill any of its obligations under this Lease, the Lease shall nevertheless commence on the Commencement Date set forth in Section 1.

4. RENT.

a. **Payment of Rent.** Tenant shall pay Landlord without notice, demand, deduction, or offset, in lawful money of the United States, the monthly Base Rent stated in Section 1 in advance on or before the first day of each month during the Lease term beginning on (check one): the Commencement Date, or _____ (if no date specified, then on the Commencement Date), and shall also pay any other additional payments due to Landlord ("Additional Rent"), including in Additional Rent those costs described as Tenant's responsibility in Section 11, 9, & 16b subject to the exclusions as set forth therein, (collectively the "Rent") when required under this Lease. Payments for any partial month at the beginning or end of the Lease shall be prorated. All payments due to Landlord under this Lease, including late fees and interest, shall also constitute Additional Rent, and upon failure of Tenant to pay any such costs, charges or expenses, Landlord shall have the same rights and remedies as otherwise provided in this Lease for the failure of Tenant to pay rent.

Triple Net Lease. This Lease is what is commonly called a "Net, Net, Net" or "Triple-Net" Lease, which means that, except as otherwise expressly provided herein, Landlord shall receive all Base Rent free and clear of any and all other impositions, taxes, liens, charges, or expenses of any nature whatsoever in connection with the ownership and operation of the Premises. In addition to Base Rent, Tenant shall pay to the parties respectively entitled thereto, or satisfy directly, all Additional Rent and other impositions, insurance premiums, repair and maintenance charges, and any other charges, costs, obligations, liabilities, requirements, and expenses, which arise with regard to the

 _____ Landlord's Initial
 SG _____ Tenant's Initial



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Premises or may be contemplated under any other provision of the Lease during its term except for costs and expenses expressly made the obligation of Landlord in this Lease. **The estimated monthly Triple Net charges for 2021 are \$1,048.12 per month and include property taxes and property insurance. Tenant shall pay grounds/parking lot maintenance directly to the provider. Controllable Triple Net expenses shall be capped at a 5% annual increase.** For the avoidance of doubt, all descriptions of Additional Rent assume Tenant to be the sole tenant of the Premises, as defined herein.

- b. **Late Charges; Default Interest.** If any sums payable by Tenant to Landlord under this Lease are not received within ten (10) business days after their due date, Tenant shall pay Landlord an amount equal to the greater of \$100 or five percent (5%) of the delinquent amount for the cost of collecting and handling such late payment in addition to the amount due and as Additional Rent. All delinquent sums payable by Tenant to Landlord and not paid within ten (10) business days after their due date shall, at Landlord's option, bear interest at the rate of fifteen percent (15%) per annum, or the highest rate of interest allowable by law, whichever is less (the "Default Rate"). Interest on all delinquent amounts shall be calculated from the original due date to the date of payment.
- c. **Less Than Full Payment.** Landlord's acceptance of less than the full amount of any payment due from Tenant shall not be deemed an accord and satisfaction or compromise of such payment unless Landlord specifically consents in writing to payment of such lesser sum as an accord and satisfaction or compromise of the amount which Landlord claims. Any portion that remains to be paid by Tenant shall be subject to the late charges and default interest provisions of this Section 4.

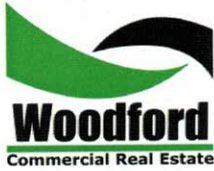
5. SECURITY DEPOSIT. ~~Upon execution of this Lease, Tenant shall deliver to Landlord the security deposit specified in Section 1 above. Landlord's obligations with respect to the security deposit are those of a debtor and not of a trustee, and Landlord may commingle the security deposit with its other funds. If Tenant breaches any covenant or condition of this Lease, including but not limited to the payment of Rent, Landlord may apply all or any part of the security deposit to the payment of any sum in default and any damage suffered by Landlord as a result of Tenant's breach. Tenant acknowledges, however, that the security deposit shall not be considered as a measure of Tenant's damages in case of default by Tenant, and any payment to Landlord from the security deposit shall not be construed as a payment of liquidated damages for Tenant's default. If Landlord applies the security deposit as contemplated by this Section, Tenant shall, within five (5) days after written demand therefore by Landlord, deposit with Landlord the amount so applied. If Tenant complies with all of the covenants and conditions of this Lease throughout the Lease term, the security deposit shall be repaid to Tenant without interest within thirty (30) days after the surrender of the Premises by Tenant in the condition required hereunder by Section 11 of this Lease.~~

6. USES. The Premises shall be used only for the Permitted Use specified in Section 1 above, and for no other business or purpose without the prior written consent of Landlord. No act shall be done on or around the Premises that is unlawful or that will increase the existing rate of insurance on the Premises or cause the cancellation of any insurance on the Premises. Tenant shall not commit or allow to be committed any waste upon the Premises, or any public or private nuisance. Tenant shall not do or permit anything to be done on the Premises which will obstruct or interfere with the rights of other Tenants or occupants of the Premises, or their employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees or to injure or annoy such persons.

7. COMPLIANCE WITH LAWS. Tenant shall not cause or permit the Premises to be used in any way which violates any law, ordinance, or governmental regulation or order. Landlord represents to Tenant that, as of the Commencement Date, to Landlord's knowledge, and with the exception of any Tenant's Work, the Premises comply with all applicable laws, rules, regulations, or orders, including without limitation, the Americans With Disabilities Act, if applicable, and Landlord shall be responsible to promptly cure at its sole cost any noncompliance which existed on the Commencement Date. Tenant shall be responsible for complying with all laws applicable to the Premises as a result of the Permitted Use, and Tenant shall be responsible for making any changes or alterations as may be required by law, rule, regulation, or order for Tenant's Permitted Use at its sole cost and expense. Otherwise, if changes or alterations are required by rule, law, regulation, or order unrelated to the Permitted Use, Landlord shall make changes and alterations at its expense.


 Landlord's Initial

SG
 Tenant's Initials



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8. **UTILITIES.** Landlord shall not be responsible for providing any utilities to the Premises and shall not be liable for any loss, injury or damage to person or property caused by or resulting from any variation, interruption, or failure of utilities due to any cause whatsoever, and rent shall not abate as a result thereof, except to the extent due to the intentional misconduct or gross negligence of Landlord. Tenant shall be responsible for determining whether available utilities and their capacities will meet Tenant's needs. Tenant shall install and connect, if necessary, and directly pay for all water, sewer, gas, janitorial, electricity, garbage removal, heat, telephone, and other utilities and services used by Tenant on the Premises during the term, whether or not such services are billed directly to Tenant. Tenant will also procure, or cause to be procured, without cost to Landlord, all necessary permits, licenses, or other authorizations required for the lawful and proper installation, maintenance, replacement, and removal on or from the Premises of wires, pipes, conduits, tubes, and other equipment and appliances for use in supplying all utilities or services to the Premises. Landlord, upon request of Tenant, and at the sole expense and liability of Tenant, shall join with Tenant in any reasonable applications required for obtaining or continuing such utilities or services. Notwithstanding the foregoing, the cost of any capital replacements shall be the responsibility of Landlord.
9. **TAXES.** Tenant shall pay all Taxes (defined below) applicable to the Premises during the Lease term. All payments for Taxes shall be made on a monthly prorated basis as part of the triple nets. The term "Taxes" shall mean: (i) any form of tax or assessment imposed on the Premises by any authority, including any city, county, state or federal government, or any improvement district, as against any legal or equitable interest of Landlord or Tenant in the Premises or in the real property of which the Premises are a part, or against rent paid for leasing the Premises; and (ii) any form of personal property tax or assessment imposed on any personal property, fixtures, furniture, tenant improvements, equipment, inventory, or other items, and all replacements, improvements, and additions to them, located on the Premises owned by Tenant. "Taxes" shall exclude: (i) any net income tax imposed on Landlord for income that Landlord receives under this Lease; (ii) penalties or interest which may be imposed upon Landlord for Landlord's delinquent payment of Taxes or assessments unless Tenant fails to timely pay Taxes; (iii) any tax levied on the purchaser and/or seller of any interest in all or any portion of the building or the real property; (iv) any business license tax or fee imposed upon Landlord which is generally applicable to all real estate related and non-real estate related business owners or operators in the city, county or state which the Premises is located; or (v) any assessments levied in order to finance in whole or in part the initial development, construction or renovation of any portion of the Premises. If Landlord may pay any special assessments included within Taxes on an installment basis, then Tenant's liability thereof shall include only that portion of such special assessments which would be due upon Landlord's election to pay the special assessments over the maximum period of time permitted, whether or not Landlord makes such election. Tenant may, upon reasonable prior notice to Landlord, contest the amount or validity, in whole or in part, of any Taxes at its sole expense, only after paying such Taxes or posting such security as Landlord may reasonably require in order to protect the Premises against loss or forfeiture. Upon the termination of any such proceedings, Tenant shall pay the amount of such Taxes or part of such Taxes as finally determined, together with any costs, fees, interest penalties, or other related liabilities. Landlord shall reasonably cooperate with Tenant in contesting any Taxes, provided Landlord incurs no expense or liability in doing so.
10. **ALTERATIONS.** Tenant may make alterations, additions, or improvements to the Premises, including any Tenant Work identified on attached Exhibit B (the "Alterations"), only with the prior written consent of Landlord, which, with respect to Alterations not affecting the structural components of the Premises or utility systems therein, shall not be unreasonably withheld, conditioned, or delayed. Landlord shall have thirty (30) days in which to respond to Tenant's request for any Alterations so long as such request includes the name of Tenant's contractors and reasonably detailed plans and specifications, therefore. The term "Alterations" shall not include the installation of shelves, movable partitions, Tenant's equipment, and trade fixtures that may be performed without damaging existing improvements or the structural integrity of the Premises and Landlord's consent shall not be required for Tenant's installation or removal of those items. Tenant shall perform all work at Tenant's expense and in compliance with all applicable laws and shall complete all Alterations in accordance with plans and specifications approved by Landlord, using contractors approved by Landlord. Tenant shall pay, when due, or furnish a bond for payment (as set forth in Section 18) all claims for labor or materials furnished to or for Tenant at or for use in the Premises, which claims are

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or may be secured by any mechanics' or materialmen's liens against the Premises or any interest therein. Tenant shall remove all Alterations at the end of the Lease term unless Landlord conditioned its consent upon Tenant leaving a specified Alteration at the Premises, in which case Tenant shall not remove such Alteration, and it shall become Landlord's property. Tenant shall immediately repair any damage to the Premises caused by removal of Alterations.

11. REPAIRS AND MAINTENANCE; SURRENDER. Tenant shall, at its sole expense, maintain the entire Premises including without limitation the roof surface and normal repairs and maintenance to all heating, ventilation, and air conditioning ("HVAC") equipment at the Premises, in good condition and promptly make all repairs and replacements, for non-structural or capital improvement items, necessary to keep the Premises in safe operating condition, including all utilities and other systems serving the Premises, but excluding capital improvements or repairs of the building structure, the roof structure, roof covering, roof membrane, subfloor, structural floor, foundation, exterior walls, and capital repairs and replacements (if necessary), to the HVAC system and utilities/utility systems up to point of entry to the building (collectively, "Landlord's Repair Items"), which Landlord shall maintain in good condition and repair at Landlord's expense, provided that Tenant shall not damage any Landlord's Repair Items and shall promptly repair any damage or injury done thereto caused by Tenant or its employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees. Furthermore, Tenant's financial responsibilities shall not include costs associated with: (i) Landlord's income, excess profits or corporate capital stock tax, or general corporate overhead; (ii) depreciation on the building or equipment therein; (iii) loan payments or debt service under mortgages or rental under any ground or underlying lease; (iv) real estate broker's commissions; (v) any costs regarding the operation, maintenance and repair of the Premises, the building, or the real property paid directly by Tenant, or otherwise reimbursed to Landlord; (vi) financing and refinancing costs (vii) advertising expenses; (viii) costs incurred (less costs of recovery) for any items covered under a manufacturer's, materialman's, vendor's or contractor's warranty; (ix) defense of Landlord's title to or interest in the Premises, the building or the real property or any part thereof; (x) the cost of any service provided to Tenant for which Landlord is actually reimbursed or is entitled to be reimbursed; (xi) interest, penalties or other costs arising out of Landlord's failure to make timely payments of its obligations; (xii) wages, bonuses and other compensation of employees above the grade of building manager and Landlord's general overhead attributable to Landlord's officers and executives; or (xiii) costs of upgrading the building or the real property to comply with laws in effect prior to the date of this Lease, including, without limitation, the ADA and any penalties or damages incurred due to such non-compliance, Notwithstanding anything in this Section to the contrary, Tenant shall not be responsible for any repairs to the Premises made necessary by the negligence or willful misconduct of Landlord or its employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees therein. If Tenant fails to perform Tenant's obligations under this Section, Landlord may at Landlord's option enter upon the Premises after ten (10) days' prior notice to Tenant and put the same in good order, condition and repair and the cost thereof together with interest thereon at the default rate set forth in Section 4 shall be due and payable as Additional Rent to Landlord together with Tenant's next installment of Base Rent. Upon expiration of the Lease term, whether by lapse of time or otherwise, Tenant shall promptly and peacefully surrender the Premises, together with all keys, to Landlord in as good condition as when received by Tenant from Landlord or as thereafter improved, reasonable wear and tear and insured casualty excepted.

12. ACCESS AND RIGHT OF ENTRY. After twenty-four (24) hours' notice from Landlord (except in cases of emergency, when no notice shall be required), Tenant shall permit Landlord and its agents, employees, and contractors to enter the Premises at all reasonable times to make repairs, inspections, alterations, or improvements, provided that Landlord shall use reasonable efforts to minimize interference with Tenant's use and enjoyment of the Premises. This Section shall not impose any repair or other obligation upon Landlord not expressly stated elsewhere in this Lease. After reasonable notice to Tenant, Landlord shall have the right to enter the Premises for the purpose of (a) showing the Premises to prospective purchasers or lenders at any time, and to prospective tenants within one hundred eighty (180) days prior to the expiration or sooner termination of the Lease term; and (b) for posting "for lease" signs within one hundred eighty (180) days prior to the expiration or sooner termination of the Lease term.

13. SIGNAGE. Tenant shall obtain Landlord's written consent as to size, location, materials, method of attachment, and appearance, before installing any signs upon the Premises. Tenant shall install any approved signage at Tenant's sole


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expense and in compliance with all applicable laws. Tenant shall not damage or deface the Premises in installing or removing signage and shall repair any injury or damage to the Premises caused by such installation or removal.

14. PARKING. During the term of this Lease, Lessee shall have exclusive use of the building's parking lot. Landlord will provide the tenant with an exclusive use of 34 parking stalls between parcel A and B on the attached map, see Exhibit C. The remainder of parking stalls may be used by Tenant until future notice or development on Parcel B. 29 of the parking stalls are located on Parcel A of which 18 are on the Starbucks side and 11 in front of the building of Parcel A and then 5 on Parcel B. There is a total of approx. 64 parking stalls on both parcels. **See the attached parking diagram on Exhibit C to the exclusive parking for the Tenant.**

15. DESTRUCTION OR CONDEMNATION.

a. **Damage and Repair.** If the Premises are partially damaged but not rendered untenable, by fire or other insured casualty, then Landlord shall diligently restore the Premises to the extent required below and this Lease shall not terminate. The Premises shall not be deemed untenable if twenty-five percent (25%) or less of the Premises are damaged. Landlord shall have no obligation to restore the Premises if insurance proceeds are not available to pay the entire cost of such restoration. If insurance proceeds are available to Landlord but are not sufficient to pay the entire cost of restoring the Premises, or if Landlord's lender shall not permit all or any part of the insurance proceeds to be applied toward restoration, then Landlord may elect to terminate this Lease and keep the insurance proceeds, by notifying Tenant within sixty (60) days of the date of such casualty. If the Premises are entirely destroyed, or partially damaged and rendered untenable, by fire or other casualty, Landlord may, at its option: (a) terminate this Lease as provided herein, or (b) restore the Premises to their previous condition to the extent required below; provided, however, if such casualty event occurs during the last six (6) months of the Lease term (after considering any option to extend the term timely exercised by Tenant) then either Tenant or Landlord may elect to terminate the Lease. If, within sixty (60) days after receipt by Landlord from Tenant of written notice that Tenant deems the Premises untenable, Landlord fails to notify Tenant of its election to restore the Premises, or if Landlord is unable to restore the Premises within six (6) months of the date of the casualty event, then Tenant may elect to terminate the Lease upon twenty (20) days' written notice to Landlord unless Landlord, within such twenty (20) day period, notifies Tenant that it will in fact restore the Premises or actually completes such restoration work to the extent required below, as applicable. If Landlord restores the Premises under this Section 14, Landlord shall proceed with reasonable diligence to complete the work, and the base monthly rent shall be abated in the same proportion as the untenable portion of the Premises bears to the whole Premises, provided that there shall be a rent abatement only if the damage or destruction of the Premises did not result from, or was not contributed to directly or indirectly by the act, fault or neglect of Tenant, or Tenant's employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees. No damages, compensation or claim shall be payable by Landlord for inconvenience, loss of business or annoyance directly, incidentally, or consequentially arising from any repair or restoration of any portion of the Premises. Landlord shall have no obligation to carry insurance of any kind for the protection of Tenant or any alterations or improvements paid for by Tenant; any Tenant Improvements identified in Exhibit B (regardless of who may have completed them); Tenant's furniture; or on any fixtures, equipment, improvements or appurtenances of Tenant under this Lease, and Landlord's restoration obligations hereunder shall not include any obligation to repair any damage thereto or replace the same.

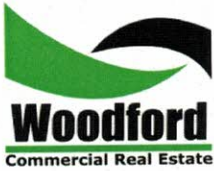
b. **Condemnation.** If the Premises are made untenable by eminent domain, or conveyed under a threat of condemnation, this Lease shall automatically terminate as of the earlier of the date title vests in the condemning authority or the condemning authority first has possession of the Premises and all Rents and other payments shall be paid to that date. If the condemning authority takes a portion of the Premises that does not render the Premises untenable, then this Lease shall continue in full force and effect and the base monthly rent shall be equitably reduced based on the proportion by which the floor area of any structures is reduced the reduction in Rent shall be effective on the earlier of the date the condemning authority first has possession of such portion or title vests in the condemning authority. Landlord shall be entitled to the entire award from the condemning authority attributable to the value of the Premises and Tenant shall make no claim for the value of its leasehold. Tenant shall be permitted to make a separate claim against the condemning authority for moving expenses, provided that in no event shall Tenant's claim reduce Landlord's award.



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16. INSURANCE.

- a. **Tenant's Liability Insurance.** During the Lease term, Tenant shall pay for and maintain commercial general liability insurance. This policy shall name Landlord, its property manager (if any), and other parties designated by Landlord as additional insureds using an endorsement form acceptable to Landlord, and shall insure Tenant's activities and those of Tenant's employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees with respect to the Premises against loss, damage or liability for personal injury or bodily injury (including death) or loss or damage to property with a per occurrence limit of not less than \$2,000,000 and aggregate limit of \$2,000,000. Tenant's insurance will be primary and noncontributory with any liability insurance carried by Landlord. ~~Landlord may also require Tenant to obtain and maintain business income coverage for at least six (6) months, business auto liability coverage, and, if applicable to Tenant's Permitted Use, liquor liability insurance and/or warehouseman's coverage.~~ Tenant shall pay for and maintain special form causes of loss coverage property insurance for all of Tenant's personal property, fixtures, and equipment in the amount of their full replacement value.
- b. **Landlord's Property Insurance.** During the Lease term, Tenant shall reimburse the Landlord monthly for commercial general insurance (with coverage for earthquake if required by Landlord's lender and, if the Premises are situated in a flood plain, flood damage) for the Premises in the amount of their full replacement value, with a deductible of not more than \$10,000. The property insurance policy shall name the Landlord and Landlord's lender(s) as loss payees as their interests may appear. In the event of a property loss on the Premises, Landlord may apply insurance proceeds under the property insurance policy in the manner described in Section 15.
- c. **Miscellaneous.** Tenant's insurance required under this Section shall be with companies rated A-/VII or better in Best's Insurance Guide or its equivalent. Should any insurance required by this agreement be cancelled or coverage is materially reduced, Tenant shall provide ten (10) days prior notice to Landlord. Tenant maintains general liability insurance through a licensed captive insurance company, a risk retention group, commercial insurers or a combination of all. Tenant shall deliver to Landlord upon commencement of the Lease and from time to time thereafter, certificates of insurance evidencing coverage required by this Section. In no event shall the limits of such policies be considered as limiting the liability of Tenant under this Lease. If Tenant fails to acquire or maintain any insurance or provide any policy or evidence of insurance required by this Section, and such failure continues for ten (10) days after notice from Landlord, Landlord may, but shall not be required to, obtain such insurance for Landlord's benefit and Tenant shall reimburse Landlord for the costs of such insurance upon demand. Such amounts shall be Additional Rent payable by Tenant hereunder and in the event of non-payment thereof, Landlord shall have the same rights and remedies with respect to such non-payment as it has with respect to any other non-payment of rent hereunder.
- d. **Waiver of Subrogation.** Landlord and Tenant hereby release each other and any other tenant, their agents, for employees, from responsibility for, and waive their entire claim of recovery for any loss or damage arising from any cause covered by property insurance required to be carried or otherwise carried by each of them. Each party shall provide notice to the property insurance carrier or carriers of this mutual waiver of subrogation and shall cause its respective property insurance carriers to waive all rights of subrogation against the other. This waiver shall not apply to the extent of the deductible amounts to any such property policies or to the extent of liabilities exceeding the limits of such policies.

17. INDEMNIFICATION.

- a. **Indemnification by Tenant.** Tenant shall defend, indemnify, and hold Landlord and its property manager, if any, harmless against all liabilities, damages, costs, and expenses, including attorneys' fees, for personal injury, bodily injury (including death) or property damage to the extent arising from any negligent or wrongful act or omission of Tenant or Tenant's employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees on or around the Premises, or to the extent arising from any breach of this Lease by Tenant. Tenant shall use legal counsel reasonably acceptable to Landlord in defense of any action within Tenant's defense obligation.
- b. **Indemnification by Landlord.** Landlord shall defend, indemnify, and hold Tenant harmless against all liabilities, damages, costs, and expenses, including attorneys' fees, for personal injury, bodily injury (including death) or property damage to the extent arising from any negligent or wrongful act or omission of Landlord or Landlord's employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees

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on or around the Premises, or to the extent arising from any breach of this Lease by Landlord. Landlord shall use legal counsel reasonably acceptable to Tenant in defense of any action within Landlord's defense obligation.

- c. **Waiver of Immunity.** Landlord and Tenant each specifically and expressly waive any immunity that each may be granted under the Washington State Industrial Insurance Act, Title 51 RCW. Neither party's indemnity obligations under this Lease shall be limited by any limitation on the amount or type of damages, compensation, or benefits payable to or for any third party under the Worker Compensation Acts, Disability Benefit Acts or other employee benefit acts.
- d. **Exemption of Landlord from Liability.** Except to the extent of claims arising out of Landlord's negligence or intentional misconduct, Landlord shall not be liable for injury to Tenant's business or assets or any loss of income therefrom or for damage to any property of Tenant or of its employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees, or any other person in or about the Premises.
- e. **Survival.** The provisions of this Section 16 shall survive expiration or termination of this Lease.

18. ASSIGNMENT AND SUBLETTING. Tenant shall not assign, sublet, mortgage, encumber or otherwise transfer any interest in this Lease (collectively referred to as a "Transfer") or any part of the Premises, without first obtaining Landlord's written consent which shall not be unreasonably withheld, conditioned, or delayed. No Transfer shall relieve Tenant of any liability under this Lease notwithstanding Landlord's consent to such Transfer. Consent to any Transfer shall not operate as a waiver of the necessity for Landlord's consent to any subsequent Transfer. In connection with each request for consent to a Transfer, Tenant shall pay the reasonable cost of processing same, including attorneys' fees, upon demand of Landlord, up to a maximum of \$3,000. If Tenant is a partnership, limited liability company, corporation, or other entity, any transfer of this Lease by merger, consolidation, redemption or liquidation, or any change in the ownership of, or power to vote, which singularly or collectively represents a majority of the beneficial interest in Tenant, shall constitute a Transfer under this Section.

As a condition to Landlord's approval, if given, any potential assignee or sublessee otherwise approved by Landlord shall assume all obligations of Tenant under this Lease and shall be jointly and severally liable with Tenant and any guarantor, if required, for the payment of Rent and performance of all terms of this Lease. In connection with any Transfer, Tenant shall provide Landlord with copies of all assignments, subleases and assumption agreement or documents.

19. LIENS. Tenant is not authorized to subject the Landlord's assets to any liens or claims of lien. Tenant shall keep the Premises free from any liens created by or through Tenant. Tenant shall indemnify and hold Landlord harmless from liability for any such liens including, without limitation, liens arising from any Alterations. If a lien is filed against the Premises by any person claiming by, through or under Tenant, Tenant shall, within ten (10) days after Landlord's demand, at Tenant's expense, either remove the lien or furnish to Landlord a bond in form and amount and issued by a surety satisfactory to Landlord, indemnifying Landlord and the Premises against all liabilities, costs, and expenses, including attorneys' fees, which Landlord could reasonably incur as a result of such lien.

20. DEFAULT. The following occurrences shall each constitute a default by Tenant (an "Event of Default):

- a. **Failure to Pay.** Failure by Tenant to pay any sum, including Rent, due under this Lease following ten (10) days' notice from Landlord of the failure to pay.
- b. **Vacation/Abandonment.** Vacation by Tenant of the Premises (defined as an absence for at least fifteen (15) consecutive days without prior notice to Landlord), or abandonment of the Premises (defined as an absence of five (5) days or more while Tenant is in breach of some other term of this Lease). Tenant's vacation or abandonment of the Premises shall not be subject to any notice or right to cure.
- c. **Insolvency.** Tenant's insolvency or bankruptcy (whether voluntary or involuntary), or appointment of a receiver, assignee, or other liquidating officer for Tenant's business; provided, however, that in the event of any involuntary bankruptcy or other insolvency proceeding, the existence of such proceeding shall constitute an Event of Default only if such proceeding is not dismissed or vacated within sixty (60) days after its institution or commencement.
- d. **Levy or Execution.** The taking of Tenant's interest in this Lease or the Premises, or any part thereof, by execution or other process of law directed against Tenant, or attachment of Tenant's interest in this Lease by any creditor of Tenant, if such attachment is not discharged within fifteen (15) days after being levied.



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- e. **Other Non-Monetary Defaults.** The breach by Tenant of any agreement, term, or covenant of this Lease other than one requiring the payment of money and not otherwise enumerated in this Section or elsewhere in this Lease, which breach continues for a period of thirty (30) days after notice by Landlord to Tenant of the breach.
- f. **Failure to Take Possession.** Failure by Tenant to take possession of the Premises on the Commencement Date or failure by Tenant to commence any Tenant's Work in a timely fashion. Landlord shall not be in default unless Landlord fails to perform obligations required of Landlord within a reasonable time, but in no event less than thirty (30) days after notice by Tenant to Landlord. If Landlord fails to cure any such default within the allotted time, Tenant's sole remedy shall be to seek actual money damages (but not consequential or punitive damages) for loss arising from Landlord's failure to discharge its obligations under this Lease. Nothing herein contained shall relieve Landlord from its duty to perform of any of its obligations to the standard prescribed in this Lease. Any notice periods granted herein shall be deemed to run concurrently with and not in addition to any default notice periods required by law.

21. REMEDIES. Landlord shall have the following remedies upon an Event of Default. Landlord's rights and remedies under this Lease shall be cumulative, and none shall exclude any other right or remedy allowed by law.

- a. **Termination of Lease.** Landlord may terminate Tenant's interest under the Lease, but no act by Landlord other than notice of termination from Landlord to Tenant shall terminate this Lease. The Lease shall terminate on the date specified in the notice of termination. Upon such termination of this Lease, Tenant will remain liable to Landlord for damages in an amount equal to the Rent and other sums that would have been owing by Tenant under this Lease for the balance of the Lease term, less the net proceeds, if any, of any reletting of the Premises by Landlord subsequent to the termination, after deducting all of Landlord's Reletting Expenses (as defined below). Landlord shall be entitled to either collect damages from Tenant monthly on the days on which rent or other amounts would have been payable under the Lease, or alternatively, Landlord may accelerate Tenant's obligations under the Lease and recover from Tenant: (i) unpaid rent which had been earned at the time of termination; (ii) the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of rent loss that Tenant proves could reasonably have been avoided; (iii) the amount by which the unpaid rent for the balance of the term of the Lease after the time of award exceeds the amount of rent loss that Tenant proves could reasonably be avoided (discounting such amount by the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus 1%); and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under the Lease, or which in the ordinary course would be likely to result from the Event of Default, including without limitation Reletting Expenses described in Section 20(b) below.
- b. **Re-Entry and Reletting.** Landlord may continue this Lease in full force and effect, and without demand or notice, re-enter and take possession of the Premises or any part thereof, expel the Tenant from the Premises and anyone claiming through or under the Tenant, and remove the personal property of either. Landlord may relet the Premises, or any part of them, in Landlord's or Tenant's name for the account of Tenant, for such period of time and at such other terms and conditions as Landlord, in its discretion, may determine. Landlord may collect and receive the rents for the Premises. To the fullest extent permitted by law, the proceeds of any reletting shall be applied: first, to pay Landlord all Reletting Expenses (defined below); second, to pay any indebtedness of Tenant to Landlord other than rent; third, to the rent due and unpaid hereunder; and fourth, the residue, if any, shall be held by Landlord and applied in payment of other or future obligations of Tenant to Landlord as the same may become due and payable, and Tenant shall not be entitled to receive any portion of such revenue. Re-entry or taking possession of the Premises by Landlord under this Section shall not be construed as an election on Landlord's part to terminate this Lease unless a notice of termination is given to Tenant. Landlord reserves the right following any re-entry or reletting, or both, under this Section to exercise its right to terminate the Lease. Tenant will pay Landlord the Rent and other sums which would be payable under this Lease if repossession had not occurred, less the net proceeds, if any, after reletting the Premises and after deducting Landlord's Reletting Expenses. "Reletting Expenses" is defined to include all expenses incurred by Landlord in connection with reletting the Premises, including without limitation, all repossession costs, brokerage commissions and costs for securing new tenants, attorneys' fees, remodeling and repair costs, costs for removing persons or property, costs for storing Tenant's property and equipment, and costs of tenant improvements and rent concessions granted by Landlord to any new Tenant, prorated over the life of the new Lease.


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- c. **Waiver of Redemption Rights.** Tenant, for itself, and on behalf of any and all persons claiming through or under Tenant, including creditors of all kinds, hereby waives and surrenders all rights and privileges which they may have under any present or future law, to redeem the Premises or to have a continuance of this Lease for the Lease term, or any extension thereof.
- d. **Nonpayment of Additional Rent.** All costs which Tenant is obligated to pay to Landlord pursuant to this Lease shall in the event of nonpayment be treated as if they were payments of Rent, and Landlord shall have the same rights it has with respect to nonpayment of Rent.
- e. **Failure to Remove Property.** If Tenant fails to remove any of its property from the Premises at Landlord's request following an uncured Event of Default, Landlord may, at its option, remove and store the property at Tenant's expense and risk. If Tenant does not pay the storage cost within twenty (20) days of Landlord's request, Landlord may, at its option, have any or all of such property sold at public or private sale (and Landlord may become a purchaser at such sale), in such manner as Landlord deems proper, without notice to Tenant. Landlord shall apply the proceeds of such sale: (i) to the expense of such sale, including reasonable attorneys' fees actually incurred; (ii) to the payment of the costs or charges for storing such property; (iii) to the payment of any other sums of money which may then be or thereafter become due Landlord from Tenant under any of the terms hereof; and (iv) the balance, if any, to Tenant. Nothing in this Section shall limit Landlord's right to sell Tenant's personal property as permitted by law or to foreclose Landlord's lien for unpaid rent.


22. MORTGAGE SUBORDINATION AND ATTORNMENT. This Lease shall automatically be subordinate to any mortgage or deed of trust created by Landlord which is now existing or hereafter placed upon the Premises including any advances, interest, modifications, renewals, replacements, or extensions ("Landlord's Mortgage"). Tenant shall attorn to the holder of any Landlord's Mortgage or any party acquiring the Premises at any sale or other proceeding under any Landlord's Mortgage provided the acquiring party assumes the obligations of Landlord under this Lease. Tenant shall promptly and in no event later than fifteen (15) days after request execute, acknowledge, and deliver documents which the holder of any Landlord's Mortgage may reasonably require as further evidence of this subordination and attornment. Notwithstanding the foregoing, Tenant's obligations under this Section to subordinate in the future are conditioned on the holder of each Landlord's Mortgage and each party acquiring the Premises at any sale or other proceeding under any such Landlord's Mortgage not disturbing Tenant's occupancy and other rights under this Lease, so long as no uncured Event of Default by Tenant exists.

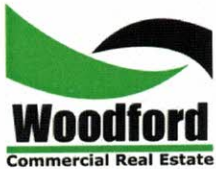
23. NON-WAIVER. Landlord's waiver of any breach of any provision contained in this Lease shall not be deemed to be a waiver of the same provision for subsequent acts of Tenant. The acceptance by Landlord of Rent or other amounts due by Tenant hereunder shall not be deemed to be a waiver of any previous breach by Tenant.

24. HOLDOVER. If Tenant shall, without the written consent of Landlord, remain in possession of the Premises and fail to return them to Landlord after the expiration or termination of the term, the tenancy shall be a holdover tenancy and shall be on a month-to-month basis, which may be terminated according to Washington law. During such tenancy, Tenant agrees to pay to Landlord 125% of the rate of rental last payable under this Lease, unless a different rate is agreed upon by Landlord. All other terms of the Lease shall remain in effect. Tenant acknowledges and agrees that this Section does not grant any right to Tenant to holdover, and that Tenant may also be liable to Landlord for any and all damages or expenses which Landlord may have to incur as a result of Tenant's holdover.

25. NOTICES. All notices under this Lease shall be in writing and effective (i) when delivered in person or via overnight courier to the other party, (ii) three (3) days after being sent by registered or certified mail to the other party at the address set forth in Section 1, (iii) upon confirmed transmission by facsimile to the other party at the facsimile numbers set forth in Section 1; or (iv) by generally recognized electronic service to the email address set forth in Section 1. The addresses for notices and payment of rent set forth in Section 1 may be modified by either party only by written notice delivered in conformance with this Section.

26. COSTS AND ATTORNEYS' FEES. If Tenant or Landlord engage the services of an attorney to collect monies due or to bring any action for any relief against the other, declaratory or otherwise, arising out of this Lease, including any suit by Landlord for the recovery of Rent or other payments, or possession of the Premises, the losing party shall pay

 _____
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the prevailing party a reasonable sum for attorneys' fees in such action, whether in mediation or arbitration, at trial, on appeal, and in any bankruptcy proceeding.

- 27. ESTOPPEL CERTIFICATES.** Tenant shall, from time to time, upon written request of Landlord, execute, acknowledge and deliver to Landlord or its designee a written statement specifying the following, subject to any modifications necessary to make such statements true and complete: (i) the total rentable square footage of the Premises; (ii) the date the Lease term commenced and the date it expires; (iii) the amount of minimum monthly Rent and the date to which such Rent has been paid; (iv) that this Lease is in full force and effect and has not been assigned, modified, supplemented or amended in any way; (v) that this Lease represents the entire agreement between the parties; (vi) that all obligations under this Lease to be performed by either party have been satisfied; (vii) that there are no existing claims, defenses or offsets which the Tenant has against the enforcement of this Lease by Landlord; (viii) the amount of Rent, if any, that Tenant paid in advance; (ix) the amount of security that Tenant deposited with Landlord; (x) if Tenant has sublet all or a portion of the Premises or assigned its interest in the Lease and to whom; (xi) if Tenant has any option to extend the Lease or option to purchase the Premises; and (xii) such other factual matters concerning the Lease or the Premises as Landlord may reasonably request. Tenant acknowledges and agrees that any statement delivered pursuant to this Section may be relied upon by a prospective purchaser of Landlord's interest or assignee of any mortgage or new mortgagee of Landlord's interest in the Premises. If Tenant shall fail to respond within ten (10) days to Landlord's request for the statement required by this Section, Landlord may provide the statement and Tenant shall be deemed to have admitted the accuracy of the information provided by Landlord.
- 28. TRANSFER OF LANDLORD'S INTEREST.** This Lease shall be assignable by Landlord without the consent of Tenant. In the event of any transfer or transfers of Landlord's interest in the Premises, other than a transfer for collateral purposes only, upon the assumption of this Lease by the transferee, Landlord shall be automatically relieved of obligations and liabilities accruing from and after the date of such transfer, excluding any liability for any retained security deposit or prepaid rent, for which the transferee and transferor shall be jointly liable, and Tenant shall attorn to the transferee.
- 29. LANDLORD'S LIABILITY.** Anything in this Lease to the contrary notwithstanding, covenants, undertakings and agreements herein made on the part of Landlord are made and intended not as personal covenants, undertakings, and agreements for the purpose of binding Landlord personally or the assets of Landlord but are made and intended for the purpose of binding only the Landlord's interest in the Premises, as the same may from time to time be encumbered. In no event shall Landlord or its partners, shareholders, or members, as the case may be, ever be personally liable hereunder.
- 30. RIGHT TO PERFORM.** If Tenant shall fail to timely pay any sum or perform any other act on its part to be performed hereunder, Landlord may make any such payment or perform any such other act on Tenant's behalf. Tenant shall, within ten (10) days of demand, reimburse Landlord for its expenses incurred in making such payment or performance. Landlord shall (in addition to any other right or remedy of Landlord provided by law) have the same rights and remedies in the event of the nonpayment of sums due under this Section as in the case of default by Tenant in the payment of Rent.
- 31. HAZARDOUS MATERIAL.** As used herein, the term "Hazardous Material" means any hazardous, dangerous, toxic, or harmful substance, material or waste including biomedical waste which is or becomes regulated by any local governmental authority, the State of Washington, or the United States Government, due to its potential harm to the health, safety or welfare of humans or the environment. Landlord represents and warrants to Tenant that, to Landlord's knowledge without duty of investigation, there is no Hazardous Material on, in, or under the Premises as of the Commencement Date except as may otherwise have been disclosed to Tenant in writing before the execution of this Lease. If there is any Hazardous Material on, in, or under the Premises as of the Commencement Date which has been or thereafter becomes unlawfully released through no fault of Tenant, then Landlord shall indemnify, defend and hold Tenant harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses including without limitation sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees, incurred or suffered


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 Tenant's Initials



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by Tenant either during or after the Lease term as the result of such contamination. Tenant shall not cause or permit any Hazardous Material to be brought upon, kept, or used in or about, or disposed of on the Premises by Tenant, its employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees, except with Landlord's prior consent and then only upon strict compliance with all applicable federal, state, and local laws, regulations, codes, and ordinances. If Tenant breaches the obligations stated in the preceding sentence, then Tenant shall indemnify, defend and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses including, without limitation, diminution in the value of the Premises; damages for the loss or restriction on use of rentable or usable space or of any amenity of the Premises, or elsewhere; damages arising from any adverse impact on marketing of space at the Premises; and sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees incurred or suffered by Landlord either during or after the Lease term. These indemnifications by Landlord and Tenant include, without limitation, costs incurred in connection with any investigation of site conditions or any clean-up, remedial, removal or restoration work, whether or not required by any federal, state, or local governmental agency or political subdivision, because of Hazardous Material present in the Premises, or in soil or ground water on or under the Premises. Tenant shall immediately notify Landlord of any inquiry, investigation or notice that Tenant may receive from any third party regarding the actual or suspected presence of Hazardous Material on the Premises. Without limiting the foregoing, if the presence of any Hazardous Material brought upon, kept or used in or about the Premises by Tenant, its employees, officers, agents, servants, contractors, customers, clients, visitors, guests, or other licensees or invitees, results in any unlawful release of any Hazardous Materials on the Premises or any other property, Tenant shall promptly take all actions, at its sole expense, as are necessary to return the Premises or any other property to the condition existing prior to the release of any such Hazardous Material; provided that Landlord's approval of such actions shall first be obtained, which approval may be withheld at Landlord's sole discretion. The provisions of this Section shall survive expiration or termination of this Lease.

32. QUIET ENJOYMENT. So long as Tenant pays the Rent and performs all of its obligations in this Lease, Tenant's possession of the Premises will not be disturbed by Landlord or anyone claiming by, through or under Landlord.

33. MERGER. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger and shall, at the option of Landlord, terminate all or any existing subtenancies or may, at the option of Landlord, operate as an assignment to Landlord of any or all of such subtenancies.

34. GENERAL.

- a. **Heirs and Assigns.** This Lease shall apply to and be binding upon Landlord and Tenant and their respective heirs, executors, administrators, successors and assigns.
- b. **Brokers' Fees.** Tenant represents and warrants to Landlord that except for Tenant's Broker, if any, described or disclosed in Section 35 of this Lease, it has not engaged any broker, finder or other person who would be entitled to any commission or fees for the negotiation, execution or delivery of this Lease and shall indemnify and hold harmless Landlord against any loss, cost, liability or expense incurred by Landlord as a result of any claim asserted by any such broker, finder or other person on the basis of any arrangements or agreements made or alleged to have been made by or on behalf of Tenant. Landlord represents and warrants to Tenant that except for Landlord's Broker, if any, described and disclosed in Section 35 of this Lease, it has not engaged any broker, finder or other person who would be entitled to any commission or fees for the negotiation, execution or delivery of this Lease and shall indemnify and hold harmless Tenant against any loss, cost, liability or expense incurred by Tenant as a result of any claim asserted by any such broker, finder or other person on the basis of any arrangements or agreements made or alleged to have been made by or on behalf of Landlord.
- c. **Entire Agreement.** This Lease contains all of the covenants and agreements between Landlord and Tenant relating to the Premises. No prior or contemporaneous agreements or understandings pertaining to the Lease shall be valid or of any force or effect and the covenants and agreements of this Lease shall not be altered, modified, or amended to except in writing signed by Landlord and Tenant.
- d. **Severability.** Any provision of this Lease which shall prove to be invalid, void, or illegal shall in no way affect, impair, or invalidate any other provision of this Lease.
- e. **Force Majeure.** Time periods for either party's performance under any provisions of this Lease (excluding payment of Rent) shall be extended for periods of time during which the party's performance is prevented due to

 _____ Landlord's Initial
 SG _____ Tenant's Initial



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circumstances beyond such party's control, including without limitation, fires, floods, earthquakes, lockouts, strikes, embargoes, governmental regulations, acts of God, public enemy, war, pandemics, or other strife.

- f. **Governing Law.** This Lease shall be governed by and construed in accordance with the laws of the State of Washington.
- g. **Memorandum of Lease.** Neither this Lease nor any memorandum or "short form" thereof shall be recorded without Landlord's prior consent.
- h. **Submission of Lease Form Not an Offer.** One party's submission of this Lease to the other for review shall not constitute an offer to lease the Premises. This Lease shall not become effective and binding upon Landlord and Tenant until it has been fully signed by both of them.
- i. **No Light, Air or View Easement.** Tenant has not been granted an easement or other right for light, air or view to or from the Premises. Any diminution or shutting off of light, air or view by any structure which may be erected on or adjacent to the Premises shall in no way effect this Lease or the obligations of Tenant hereunder or impose any liability on Landlord.
- j. **Authority of Parties.** Each party signing this Lease represents and warrants to the other that it has the authority to enter into this Lease, that the execution and delivery of this Lease has been duly authorized, and that upon such execution and delivery, this Lease shall be binding upon and enforceable against the party on signing.
- k. **Time.** "Day" as used herein means a calendar day and "business day" means any day on which commercial banks are generally open for business in the state where the Premises are situated. Any period of time which would otherwise end on a non-business day shall be extended to the next following business day. Time is of the essence of this Lease.

35. EXHIBITS AND RIDERS. The following exhibits and riders are made a part of this Lease, and the terms thereof shall control over any inconsistent provision in the sections of this Lease:

- Exhibit A - Legal Description of the Property
- Exhibit B - Tenant Improvement Schedule
- Exhibit C - Exclusive Parking Diagram
- Exhibit D - Purposed Floor Plan

CHECK THE BOX FOR ANY OF THE FOLLOWING THAT WILL APPLY. CAPITALIZED TERMS USED IN THE RIDERS SHALL HAVE THE MEANING GIVEN TO THEM IN THE LEASE.

- Rent Rider
- Arbitration Rider
- Letter of Credit Rider
- Guaranty of Tenant's Lease Obligations Rider
- Option to Extend Rider

36. AGENCY DISCLOSURE. At the signing of this Lease,

Landlord's Agent **Chris Rowe of Woodford CRE**


Represents: **Landlord**

And Tenant's Agent **Paul Young of Fuller Group CRE**

Represents: **Tenant**

This Agency Disclosure creates an agency relationship between Landlord, Landlord's Broker (if any such person is disclosed), and any managing brokers who supervise Landlord's Broker's performance (collectively the "Supervising Brokers"). In addition, this Agency Disclosure creates an agency relationship between Tenant, Tenant's Broker (if any such person is disclosed), and any managing brokers who supervise Tenant's Broker's performance (also collectively the "Supervising Brokers"). If Tenant's Broker and Landlord's Broker are different real estate licensees affiliated with


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the same Firm, then both Tenant and Landlord confirm their consent to that Firm and both Tenant's and Landlord's Supervising Brokers acting as dual agents. If Tenant's Broker and Landlord's Broker are the same real estate licensee who represents both parties, then both Landlord and Tenant acknowledge that the Broker, his or her Supervising Brokers, and his or her Firm are acting as dual agents and hereby consent to such dual agency. If Tenants' Broker, Landlord's Broker, their Supervising Brokers, or their Firm are dual agents, Landlord and Tenant consent to Tenant's Broker, Landlord's Broker and their Firm being compensated based on a percentage of the rent or as otherwise disclosed on the attached addendum. Neither Tenant's Broker, Landlord's Broker nor either of their Firms are receiving compensation from more than one party to this transaction unless otherwise disclosed on an attached addendum, in which case Landlord and Tenant consent to such compensation. Landlord and Tenant confirm receipt of the pamphlet entitled "The Law of Real Estate Agency."

37. COMMISSION AGREEMENT. COMMISSION AGREEMENT. If Landlord has not entered into a listing agreement (or other compensation agreement with Landlord's Broker), Landlord agrees to pay a commission to Landlord's Broker (as identified in the Agency Disclosure paragraph above) as follows:

- \$ _____
- _____ % of the gross rent payable pursuant to the Lease.
- \$ _____ per square foot of the Premises.
- Other: Per separate listing agreement.

Landlord's Broker shall not (shall not if not filled in) be entitled to a commission upon the extension by Tenant of the Lease term pursuant to any right reserved to Tenant under the Lease calculated as provided above or as follows _____ (if no box is checked, as provided above). Landlord's Broker shall shall not (shall not if not filled in) be entitled to a commission upon any expansion of Premises pursuant to any right reserved to Tenant under the Lease, calculated as provided above or as follows _____ (if no box is checked, as provided above). Any commission shall be earned upon occupancy of the Premises by Tenant and paid one-half upon execution of the Lease and one-half upon occupancy of the Premises by Tenant. Landlord's Broker shall pay to Tenant's Broker (identified in the Agency Disclosure paragraph above) the amount stated in a separate agreement between them or, if there is no agreement, \$ _____ / _____ % (complete only one) of any commission paid to Landlord's Broker, within five (5) days after receipt by Landlord's Broker. If any other lease or sale is entered into between Landlord and Tenant pursuant to a right reserved to Tenant under the Lease, Landlord shall shall not (shall not if not filled in) pay an additional commission according to any commission agreement or, in the absence of one, according to the commission schedule of Landlord's Broker in effect as of the execution of this Lease. Landlord's successor shall be obligated to pay any unpaid commissions upon any transfer of this Lease and any such transfer shall not release the transferor from liability to pay such commissions.

38. BROKER PROVISIONS. LANDLORD'S BROKER, TENANT'S BROKER AND THEIR FIRMS HAVE MADE NO REPRESENTATIONS OR WARRANTIES CONCERNING THE PREMISES; THE MEANING OF THE TERMS AND CONDITIONS OF THIS LEASE; LANDLORD'S OR TENANT'S FINANCIAL STANDING; ZONING OR COMPLIANCE OF THE PREMISES WITH APPLICABLE LAWS; SERVICE OR CAPACITY OF UTILITIES; OPERATING COSTS; OR HAZARDOUS MATERIALS. LANDLORD AND TENANT ARE EACH ADVISED TO SEEK INDEPENDENT LEGAL ADVICE ON THESE AND OTHER MATTERS ARISING UNDER THIS LEASE.

 _____
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IN WITNESS WHEREOF this Lease has been executed the date and year first above written.


 LANDLORD: Pucci Davis Properties, LLC

BY: nebo

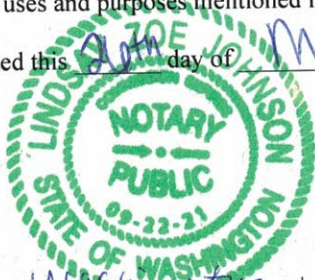
TENANT: PeaceHealth, a Washington Nonprofit Corporation


BY: Steven Glenn  03/18/2021 02:41 PM EDT

STATE OF WASHINGTON |
 COUNTY OF COWLITZ | ss.

I certify that I know or have satisfactory evidence that Robert Davis is the person who appeared before me and said person acknowledged that he/she signed this instrument, on oath stated that he/she was authorized to execute the instrument and acknowledged it as the **Governor** of **Pucci Davis Properties, LLC** to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated this 17 day of March, 2021.

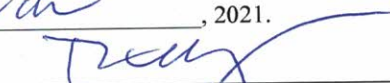



 Notary Public in and for the State of
 Washington, residing at: Cowlitz Co
 My appointment expires: 9/22/21

STATE OF Washington |
 COUNTY OF Clallam | ss.

I certify that I know or have satisfactory evidence that Steven Glenn is the person who appeared before me and said person acknowledged that he/she signed this instrument, on oath stated that he/she was authorized to execute the instrument and acknowledged it as the **EVPIKAO** of **PeaceHealth, a Washington Nonprofit Corporation** to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated this 18 day of March, 2021.


 Notary Public in and for the State of
 Washington, residing at: Cowlitz
 My appointment expires: 12/30/2021



 _____
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EXHIBIT A

[Legal Description of the Property]

PARCEL "A"


A PORTION OF TRACTS 69 AND 70 OF ASSESSOR'S PLAT NUMBER 17, FILED IN VOLUME 8, PAGE 39, RECORDS OF COWLITZ COUNTY, WASHINGTON MORE PARTICULARLY DESCRIBED AS FOLLOWS:
 COMMENCING AT A 1/2" REBAR WITH YELLOW PLASTIC CAP MARKED (K. BLUHM LS 29269) AT THE MOST NORTHERLY CORNER OF TRACT 71 OF SAID PLAT; THENCE S58°07'39"W ALONG THE SOUTHERLY MARGIN OF WASHINGTON WAY A DISTANCE OF 133.62 FEET TO A MAG NAIL WITH LS WASHER MARKED (K. BLUHM LS 29269) AND THE TRUE POINT OF BEGINNING OF SAID DESCRIPTION; THENCE CONTINUING S58°07'39"W ALONG SAID MARGIN A DISTANCE OF 166.58 FEET TO A 1/2" REBAR WITH YELLOW PLASTIC CAP MARKED (K. BLUHM LS 29269) AT THE MOST NORTHERLY CORNER OF THE SOUTHWESTERLY 150.00 FEET OF EVEN WIDTH OF SAID TRACT 69; THENCE S31°52'32"E ALONG THE NORTHEASTERLY LINE OF SAID SOUTHWESTERLY 150.00 FEET A DISTANCE OF 120.06 FEET TO A 1/2" REBAR WITH YELLOW PLASTIC CAP MARKED (K. BLUHM LS 29269) ON THE SOUTHEASTERLY LINE IF SAID TRACT 69; THENCE N58°07'36"E ALONG SAID SOUTHEASTERLY LINE A DISTANCE OF 166.59 FEET TO A MAG NAIL WITH LS WASHER MARKED (K. BLUHM LS 29269); THENCE N31°52'30"W A DISTANCE OF 120.06 FEET TO THE TRUE POINT OF BEGINNING.

A Portion of:

PARCEL "B"

A PORTION OF TRACTS 70, 71 AND 72 OF ASSESSOR'S PLAT NUMBER 17, FILED IN VOLUME 8, PAGE 39, RECORDS OF COWLITZ COUNTY, WASHINGTON MORE PARTICULARLY DESCRIBED AS FOLLOWS:
 BEGINNING AT A 1/2" REBAR WITH YELLOW PLASTIC CAP MARKED (K. BLUHM LS 29269) AT THE MOST NORTHERLY CORNER OF TRACT 71 OF SAID PLAT; THENCE S58°07'39"W ALONG THE SOUTHERLY MARGIN OF WASHINGTON WAY A DISTANCE OF 133.62 FEET TO A MAG NAIL WITH LS WASHER MARKED (K. BLUHM LS 29269); THENCE S31°52'30"E A DISTANCE OF 120.06 FEET TO MAG NAIL WITH LS WASHER MARKED (K. BLUHM LS 29269) ON THE SOUTHEASTERLY LINE OF SAID TRACT 70; THENCE N58°07'36"E ALONG SAID SOUTHEASTERLY LINE A DISTANCE OF 33.59 FEET TO A 1/2" REBAR WITH YELLOW PLASTIC CAP MARKED (K. BLUHM LS 29269) ON THE SOUTHWESTERLY LINE OF SAID TRACT 72; THENCE S31°52'51"E ALONG SAID SOUTHWESTERLY LINE A DISTANCE OF 20.00 FEET TO A 1/2" IRON PIPE AT THE MOST SOUTHERLY CORNER OF SAID TRACT 72; THENCE N58°07'36"E ALONG THE SOUTHEASTERLY LINE OF SAID TRACT 72 A DISTANCE OF 100.05 FEET TO A MAG NAIL WITH LS WASHER MARKED (K. BLUHM LS 29269) AT THE MOST EASTERLY CORNER OF SAID TRACT 72; THENCE N31°52'55"W ALONG THE SOUTHWESTERLY MARGIN OF 8TH AVENUE A DISTANCE OF 140.06 FEET TO THE POINT OF BEGINNING.


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EXHIBIT B

Tenant Improvements to be Completed by Tenant at Tenant's sole cost and expense. All improvements that require a permit shall have one.

- Landlord shall provide the space in "turnkey" condition based on a mutually agreed upon space plan using building standard colors and materials (See Exhibit D). All other tenant improvements shall be subject to Landlord's approval and shall be at Tenant's sole cost and responsibility.
- Tenant to provide window coverings to their satisfaction.

Tenant Improvements to be Completed by Landlord at their sole cost and expense.

- Paint the interior of the Premises a building standard shade per tenant spec sheet.
- Install new flooring throughout the Premises according to Tenant's spec sheet. Flooring allowance shall not exceed \$30,000 for the Premises, including installation.
- Decommission the vault but remove interior walls from the area to allow the room to be used for storage.
- The interior drive through area will change the exterior wall of the drive through to have windows and add a door to match the others in the building. The awning to remain. All above ground pneumatic tubing will be removed and the awning area will be turned into an outdoor seating/meeting area with final design subject to both parties' approval. Coved area will have raised concrete patio which shall be level with the floor of the building and shall have perimeter fencing installed around the raised patio area. Subject to revisions or changes to the patio area required by the local municipality.
- Reconfigure the premise as indicated on the attached preliminary floor plan, see Exhibit D. Subject to minor changes with final design to be mutually acceptable to both Landlord and Tenant.
- Install new lighting in the reception area per Tenant's design.
- Unless previously completed within the past Two (2) years, Landlord shall have the parking lot resealed and restriped prior to delivery of the Premises to the Tenant.
- Landlord to provide power to the cubicles once tenant has them installed.
- Landlord shall provide a space plan and drawings needed for permitting at Landlord's sole expense.


 Landlord's Initial

SG

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EXHIBIT C

[Parking Diagram]



Landlord will provide the tenant with an exclusive use of 34 parking stalls between parcel A and B on the above map. The remainder of parking stalls may be used by Tenant until future notice or development on Parcel B. 29 of the parking stalls are located on Parcel A of which 18 are on the Starbucks side and 11 in front of the building of Parcel A and then 5 on Parcel B. There are a total of 64 parking stalls at the property.


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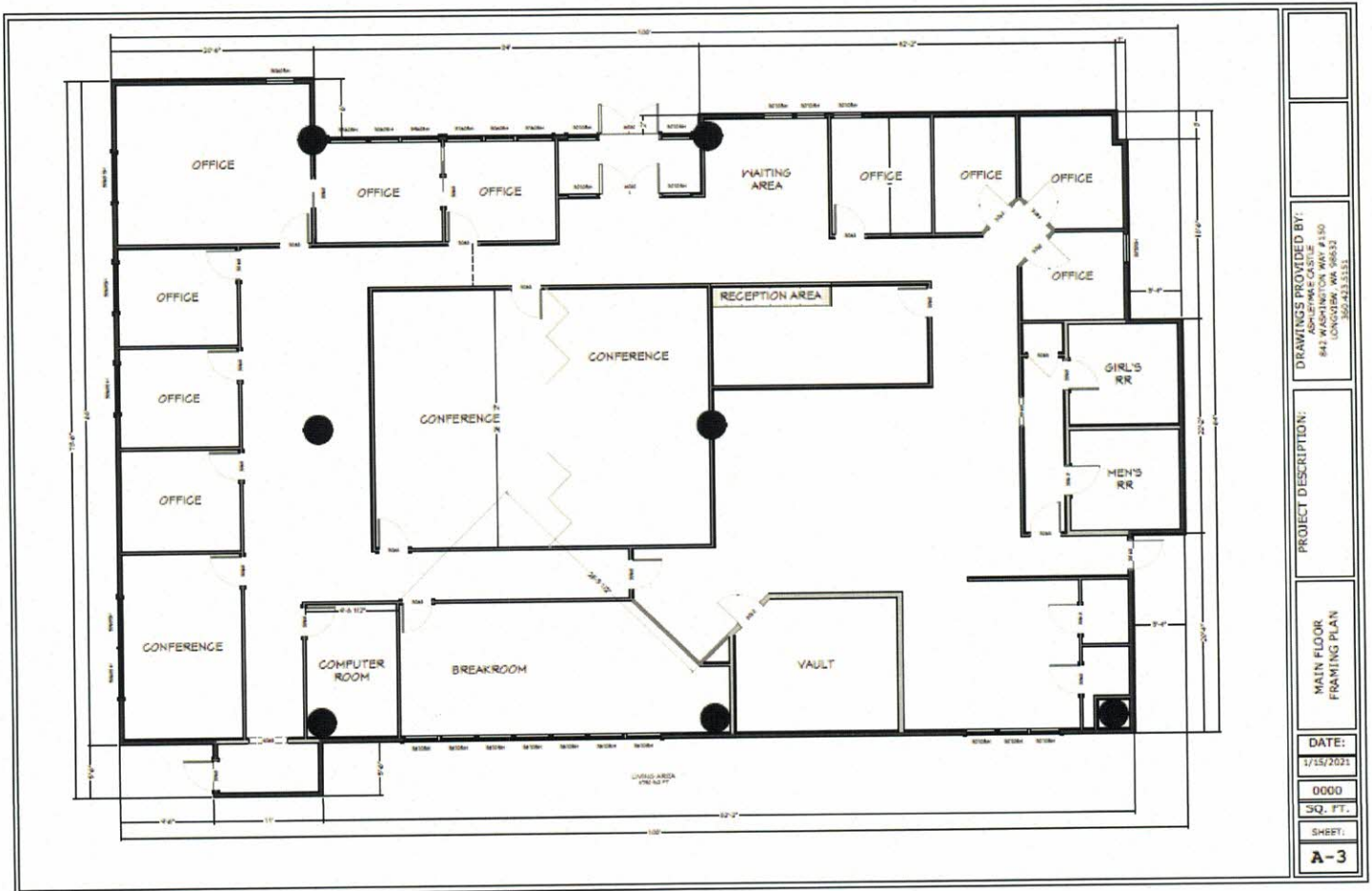


Form ST NNN
 Single Tenant NNN Lease
 Rev. 3/2011
 Page 19 of 19


LEASE AGREEMENT
 Single Tenant for Entire Parcel - NNN

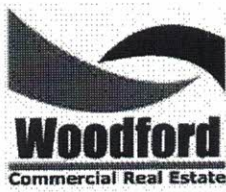
EXHIBIT D

[Purposed Floor Plan]




 Landlord's Initial


 Tenant's Initials



Woodford Commercial Real Estate
 208 Vine St
 Kelso WA 98626
 Phone: 360.501.5500
 Fax: 360.501.6051

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CBA Form RR
 Rent Rider
 Rev. 9/07
 Page 1 of 1

RENT RIDER

CBA Text Disclaimer: Text deleted by licensee indicated by strike.
 New text inserted by licensee indicated by small capital letters.

Landlord and Tenant should complete only those provisions below which apply. Any provision below which is not completed shall not apply to the Lease.

1. BASE MONTHLY RENT SCHEDULE. Tenant shall pay Landlord base monthly rent during the Lease Term according to the following schedule:

Lease Year (Stated in Years or Months)	Base Monthly Rent Amount
Months 1-2	Abated + Triple Nets Charges
Months 3-14	\$8,986.67 Per Month + Triple Net Charges
Months 15-26	\$9,211.34 Per Month + Triple Net Charges
Months 27-38	\$9,441.62 Per Month + Triple Net Charges
Months 39-50	\$9,677.66 Per Month + Triple Net Charges
Months 51-62	\$9,919.60 Per Month + Triple Net Charges
Option 1: Months 63-122	<u>Last Base Rent Plus 2.5% Annual Increase + Triple Net Charges</u>
Option 2: Months 123-182	<u>Last Base Rent Plus 2.5% Annual Increase + Triple Net Charges</u>

2. CONSUMER PRICE INDEX ADJUSTMENT ON BASE MONTHLY RENT. ~~The base monthly rent shall be increased on the first day of the second Lease Year and on the first day of each Lease Year thereafter during the term of this Lease (but not during any extension term(s) unless specifically set forth elsewhere in this Lease or any other Rider attached hereto) (each, an "adjustment date") in accordance with the increase in the United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers (all items for the geographical Statistical Area in which the Premises is located on the basis of 1982-1984 equals 100) (the "Index"). The base monthly rent payable immediately prior to the applicable adjustment date shall be increased by the percentage that the Index published for the date nearest preceding the applicable adjustment date has increased over the Index published for the date nearest preceding the first day of the Lease Year from which the adjustment is being measured. Upon the calculation of each increase, Landlord shall notify Tenant of the new base monthly rent payable hereunder. Within twenty (20) days of the date of Landlord's notice, Tenant shall pay to Landlord the amount of any deficiency in Rent paid by Tenant for the period following the subject adjustment date, and shall thereafter pay the increased Rent until receiving the next notice of increase from Landlord. If the components of the Index are materially changed after the Commencement Date, or if the Index is discontinued during the Lease term, Landlord shall notify Tenant of a substitute published index which, in Landlord's reasonable discretion, approximates the Index, and shall use the substitute index to make subsequent adjustments in base monthly rent. In no event shall base monthly rent be decreased pursuant to this paragraph.~~


 Landlord's Initials:

SG
 Tenant's Initials:



Woodford Commercial Real Estate
 208 Vine St
 Kelso WA 98626
 Phone: 360.501.5500
 Fax: 360.501.6051

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CBA Form No. OR
 Option to Extend Rider
 Rev. 9/07
 Page 1 of 1

OPTION TO EXTEND RIDER

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Provided Tenant is not in default at the time of exercise or upon the commencement of any extension term described below, Tenant shall have (if not completed, zero) two (2) successive options to extend the term of this Lease for five (5) years each. **Extension lease rate shall be defined in the rent rider.**

If Tenant desires to exercise an option, it must deliver written notice to Landlord not less than one hundred eighty (180) days prior to the expiration of the then-current Lease term, time being of the essence in connection therewith. Upon proper and timely exercise of any option, the term of this Lease shall be extended for the period of the subject option upon all of the same terms, conditions and covenants as set forth herein, except that (i) the amount of the base monthly rental stated in the Lease shall be adjusted to the lease rates in the Rent Rider; (ii) there shall be no free or abated rent periods, tenant improvement allowances or other concessions that may have been granted to Tenant at the beginning of the initial term hereof; and (iii) after exercise of Tenant's final extension term option, there shall be no further extension or renewal term options.



 Landlord's Initials



SG

 Tenant's Initials

Exhibit 6
Assessor Information

 [Request Sales Report](#)

General Property Info

Parcel	095710100
Property ID	5966487
	 Assessor's Map
	 Bldg & Planning EPIC Map
Abbreviated Prop Ref	35 (AP 17) -70A,71,72 27 -8N -2W AKA ROS40082 TR B
Section/Township/Range	27-8N-2W

Owner Info

Primary Owner	PUCCI DAVIS PROPERTIES LLC
Address	842 WASHINGTON WAY #110
City, State, Zip	LONGVIEW, WA 98632
Country	US

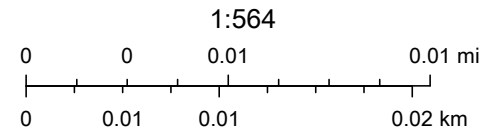
Cowlitz County is still processing this parcel. When the processing is complete, additional information will become available on this page.

Cowlitz County Net Map



11/11/2021, 11:11:17 AM

- SR_MP
 - TaxParcels
 - DonationLandClaims
 - City Limits
 - Water
 - GEO_COWLITZ_PUBLIC.DBO.ADDRESSPOINTS
 - 0 RURAL PRIVATE
 - 1 INTERSTATE
- CN_00076



Cowlitz County GIS Department., Cowlitz County GIS Department, WA

72
Cowlitz County
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Appendix 1
Audited Financials



PEACEHEALTH NETWORKS
Consolidated Financial Statements
June 30, 2019 and 2018
(With Independent Auditors' Report Thereon)

PEACEHEALTH NETWORKS

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Emphasis of Matters

As discussed in notes 2(u) and 3 to the consolidated financial statements, in 2019, PeaceHealth Networks adopted new accounting guidance in Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) and ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). Our opinion is not modified with respect to these matters.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The additional information included on pages 39 to 42 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 auditing standards generally accepted in the United States of America. 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
September 27, 2019

PEACEHEALTH NETWORKS

Consolidated Balance Sheets

June 30, 2019 and 2018

(In thousands)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 46,885	53,467
Short-term investments	862,785	932,732
Accounts receivable, net of allowance for doubtful accounts of \$1,059 and \$86,994	360,294	336,762
Other receivables	43,699	46,651
Inventory of supplies	44,545	43,403
Prepaid expenses and other	30,520	27,053
Assets whose use is limited that are required for current liabilities	6,907	8,358
Total current assets	1,395,635	1,448,426
Assets whose use is limited:		
Cash and investments	1,336,434	1,221,259
Investments in joint ventures and other	26,881	26,143
Total assets whose use is limited	1,363,315	1,247,402
Less current portion	(6,907)	(8,358)
Net assets whose use is limited	1,356,408	1,239,044
Property, plant, and equipment:		
Land and improvements	142,351	141,984
Buildings, fixed equipment, and other	1,779,651	1,756,173
Moveable equipment	930,732	822,297
Construction in progress	151,440	60,034
Total property, plant, and equipment	3,004,174	2,780,488
Less accumulated depreciation	(1,739,782)	(1,559,368)
Net property, plant, and equipment	1,264,392	1,221,120
Interest in net assets of related foundations	69,338	72,375
Other assets	103,471	36,967
Total assets	\$ 4,189,244	4,017,932

PEACEHEALTH NETWORKS

Consolidated Balance Sheets

June 30, 2019 and 2018

(In thousands)

Liabilities and Net Assets	2019	2018
Current liabilities:		
Accounts payable	\$ 137,944	112,642
Accrued payroll, payroll taxes, and employee benefits	150,420	150,326
Accrued interest payable	4,193	4,328
Other current liabilities	40,612	34,051
Pending trades payable	17,348	77,021
Current portion of long-term debt	24,933	106,282
Total current liabilities	<u>375,450</u>	<u>484,650</u>
Other long-term liabilities	340,913	284,924
Long-term debt, net of current portion	978,886	847,397
Net assets:		
Without donor restrictions, controlling interest	2,399,852	2,301,885
Without donor restrictions, noncontrolling interest	5,229	4,569
With donor restrictions	88,914	94,507
Total net assets	<u>2,493,995</u>	<u>2,400,961</u>
Total liabilities and net assets	<u>\$ 4,189,244</u>	<u>4,017,932</u>

See accompanying notes to consolidated financial statements.

PEACEHEALTH NETWORKS

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

Years ended June 30, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Revenues:		
Net patient service revenue	\$ 2,715,953	2,618,321
Provision for bad debts	—	(71,837)
Net patient service revenue	2,715,953	2,546,484
Other operating revenue	67,995	79,792
Total revenues	2,783,948	2,626,276
Expenses:		
Salaries and wages	1,348,644	1,260,688
Payroll taxes and benefits	278,294	256,526
Supplies	422,953	398,375
Purchased services	264,397	221,679
Other	246,452	227,645
Depreciation and amortization	138,672	139,069
Interest and amortization of deferred financing costs	35,196	31,898
Total expenses	2,734,608	2,535,880
Income from operations	49,340	90,396
Other income (expense):		
Investment return, net	103,534	93,030
Net change in interest rate swaps	(40,346)	10,219
Other	(3,924)	(1,501)
Total other income	59,264	101,748
Excess of revenues over expenses from continued operations	108,604	192,144
Discontinued operations (note 14):		
Gain from operations (including gain on disposal of \$0 and \$899, in 2019 and 2018, respectively)	—	4,949
Total gain on discontinued operations	—	4,949
Excess of revenues over expenses	108,604	197,093
Net assets released from restrictions for property, plant, and equipment	7,188	3,095
Change in pension liability	(15,337)	15,216
Other changes in net assets without donor restrictions	(1,828)	(1,742)
Increase in net assets without donor restrictions	\$ 98,627	213,662

See accompanying notes to consolidated financial statements.

PEACEHEALTH NETWORKS
Consolidated Statements of Changes in Net Assets
Years ended June 30, 2019 and 2018
(In thousands)

	<u>Without donor restrictions</u>		<u>With donor restrictions</u>	<u>Total</u>
	<u>Controlling interest</u>	<u>Noncontrolling interest</u>		
Net assets at June 30, 2017	\$ 2,089,235	3,557	81,871	2,174,663
Excess of revenues over expenses from continued operations	191,456	688	—	192,144
Other restricted contributions	—	—	3,274	3,274
Net assets released from restrictions	3,095	—	(4,283)	(1,188)
Change in interest in net assets of related foundations	—	—	9,028	9,028
Change in pension liability	15,216	—	—	15,216
Other changes in net assets	(1,742)	—	4,617	2,875
Change in net assets before discontinued operations	208,025	688	12,636	221,349
Discontinued operations (note 14)	4,625	324	—	4,949
Change in net assets	212,650	1,012	12,636	226,298
Net assets at June 30, 2018	2,301,885	4,569	94,507	2,400,961
Excess of revenues over expenses from continued operations	107,944	660	—	108,604
Other restricted contributions	—	—	7,188	7,188
Net assets released from restrictions	7,188	—	(8,118)	(930)
Change in interest in net assets of related foundations	—	—	(3,037)	(3,037)
Change in pension liability	(15,337)	—	—	(15,337)
Other changes in net assets	(1,828)	—	(1,626)	(3,454)
Change in net assets	97,967	660	(5,593)	93,034
Net assets at June 30, 2019	\$ 2,399,852	5,229	88,914	2,493,995

See accompanying notes to consolidated financial statements.

PEACEHEALTH NETWORKS
Consolidated Statements of Cash Flows
Years ended June 30, 2019 and 2018
(In thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 93,034	226,298
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	138,672	139,069
(Gain) loss on sale of land held for sale and property, plant, and equipment	(1,698)	260
Provision for bad debts	—	71,837
Change in pension liability	15,337	(15,216)
Restricted contributions	(7,188)	(3,274)
Net change in unrealized losses on investments	(36,282)	(1,616)
Realized gains on investments	(24,881)	(55,508)
Valuation adjustments on swap arrangements	31,585	(21,174)
Vesting of Premier Class B units	(8,383)	(5,892)
Change in interest in net assets of related foundations	3,037	(9,028)
Equity earnings on investments, net	(537)	1,404
Loss on sale of discontinued operations	—	899
Gain on refinancing	(732)	—
Changes in operating assets and liabilities:		
Increase (decrease) in:		
Accounts receivable, net	(23,532)	(95,269)
Other assets	(69,069)	(18,756)
Increase (decrease) in:		
Accounts payable	25,302	16,155
Accrued payroll, payroll taxes, and employee benefits	94	(6,454)
Other liabilities	(44,180)	(16,367)
Net cash provided by operating activities	90,579	207,368
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(181,357)	(110,995)
Proceeds from sale of land held for sale and property, plant, and equipment	2,019	96
Purchase of alternative investments	(83,569)	(204,293)
Purchases/Sales of investments, net	108,418	86,722
Net cash used in investing activities	(154,489)	(228,470)
Cash flows from financing activities:		
Principal payments on long-term debt	(525,979)	(34,462)
Proceeds from new financing	576,119	—
Proceeds from restricted contributions	7,188	3,274
Net cash provided by (used in) financing activities	57,328	(31,188)
Net decrease in cash and cash equivalents	(6,582)	(52,290)
Cash and cash equivalents at beginning of year	53,467	105,757
Cash and cash equivalents at end of year	\$ 46,885	53,467

See accompanying notes to consolidated financial statements.

PEACEHEALTH NETWORKS

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(1) Organization

(a) Corporate Structure

PeaceHealth Networks is a Washington not-for-profit corporation, recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code, which is the sole corporate member of PeaceHealth, which is also a Washington not-for-profit corporation, recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code, with its corporate office located in Vancouver, Washington. PeaceHealth Networks is not affiliated with the Roman Catholic Church, currently has no operations, and currently holds no financial assets in its own name; however, it is the member corporation of PeaceHealth, which is a Private Pontifical Juridic Person according to the canon law of the Roman Catholic Church, does have extensive healthcare operations and holds substantial financial assets. PeaceHealth Networks and its associated entities are collectively referred to herein as "the Corporation." PeaceHealth Networks and PeaceHealth are the only members of the Corporation's obligated group. At June 30, 2019, the following regional healthcare delivery systems and operating divisions are components of PeaceHealth:

Northwest Network:

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

Columbia Network:

- PeaceHealth St. John Medical Center
- PeaceHealth Southwest Medical Center

Oregon West Network:

- PeaceHealth Sacred Heart Medical Center at University District
- PeaceHealth Sacred Heart Medical Center at RiverBend
- PeaceHealth Cottage Grove Community Medical Center
- PeaceHealth Peace Harbor Medical Center

Systemwide Organizations:

- PeaceHealth Medical Group

PEACEHEALTH NETWORKS

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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

PeaceHealth Networks included the following controlled affiliates at

June 30, 2019:

PeaceHealth

Health Ventures

Pooled Income Funds (including Charitable Life Income Funds)

PeaceHealth Southwest Medical Center Foundation

PeaceHealth Networks On Demand (established January 1, 2019)

Columbia United Providers (CUP) – owned 91.7% (Discontinued Operations as of December 2015)

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

(2) Summary of Significant Accounting Policies

(a) *Estimates*

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

(b) *Cash and Cash Equivalents*

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

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

(c) *Short-Term Investments*

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

PEACEHEALTH NETWORKS

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(d) Inventory of Supplies

Inventory is valued on weighted average cost.

(e) Other Receivables

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

(f) Assets Whose Use is Limited

Certain assets have been set aside by management of the Corporation for future capital improvements, self-insured liabilities, and other purposes, over which management retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Corporation have been reclassified as current in the consolidated balance sheets at June 30, 2019 and 2018. These items consist primarily of investments in marketable equity and fixed-income securities. Investment income or loss (including realized and unrealized gains and losses and interest and dividends) is included in the excess of revenues over expenses.

PeaceHealth accounts for its investments on a trade-date basis. Investment sales and purchases initiated prior to the consolidated balance sheet date and settled subsequent to the consolidated balance sheet date result in amounts due from and to brokers. Changes in these assets and liabilities represent noncash investing activities excluded from the consolidated statement of cash flows. As of June 30, 2019 and 2018, PeaceHealth recorded payables of \$17,348 and \$77,021, respectively, for investments purchased but not settled as pending trades payable in the accompanying consolidated balance sheets.

(g) Liquidity

Cash and cash equivalents, accounts receivable, and short-term investments are the primary liquid resources used by the Corporation to meet expected expenditure needs within the next year. The Corporation has credit facility programs, as described in note 6, available to meet unanticipated liquidity needs. Although intended to satisfy long-term obligations, management estimates that approximately 88% of assets whose use is limited, as stated at June 30, 2019, could be liquidated within the next year if needed.

(h) Property, Plant, and Equipment

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

PEACEHEALTH NETWORKS

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The Corporation assesses potential impairment of its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss is indicated when the sum of expected undiscounted future net cash flows is less than the carrying amount. The loss recognized is the difference between the fair value and the carrying amount. No impairment losses related to property, plant, and equipment were recognized during the year ended June 30, 2019 or 2018.

(i) Depreciation

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

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

(j) Other Assets

Other assets include intangible assets, primarily trade names, and goodwill. Intangible assets with indefinite lives are evaluated annually for impairment. Impairment reviews are performed of the purchased intangible assets whenever events or changes in circumstances indicate carrying amount of an asset may not be recoverable. There were no impairment losses recognized during the year ended June 30, 2019 or 2018.

(k) Other Long-Term Liabilities

Other long-term liabilities consist primarily of the estimated fair value associated with the Corporation's interest rate swaps of \$123,500 and \$91,915 at June 30, 2019 and 2018, respectively; the liability for the PeaceHealth SWHS Frozen DB Pension Plan of \$52,768 and \$42,634 at June 30, 2019 and 2018, respectively; and the long-term portion of the liability for the self-insurance programs of \$73,596 and \$64,055 at June 30, 2019 and 2018, respectively. The remaining balance of other long-term liabilities includes environmental liability, gift annuities, and deferred compensation plan liability.

Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Subtopic 410-30, *Environmental Obligations*, requires the fair value of a liability for a legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized. The Corporation had \$20,198 and \$19,898 recorded as other long-term liabilities as of June 30, 2019 and 2018, respectively. The Corporation recognized \$569 and \$564 in 2019 and 2018, respectively, related to amortization. Amortization is recognized over the life of the related asset.

The Corporation has created several pooled income funds. Donors make a contribution and receive annuity payments based on the associated rental income. Upon the annuity termination, the remaining interest is transferred to the Corporation. At June 30, 2019 and 2018, the Corporation has recorded the

PEACEHEALTH NETWORKS
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

present value of the annuity payments of \$9,769 and \$10,057, respectively, as part of other long-term liabilities. The discount rate ranged from 6.3% to 7.0% at June 30, 2019 and 6.2% to 6.8% at June 30, 2018.

(l) Net Assets

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

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

(m) Contributions and Grants

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

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

(n) Interest in Net Assets of Related Foundations

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

(o) Other Operating Revenue

Other operating revenue includes revenue from nonpatient care services, clinical space rental revenue, and contributions both unrestricted in nature and those released from restriction to support operating activities, and other miscellaneous revenue.

PEACEHEALTH NETWORKS

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(p) Income from Operations

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

(q) Excess of Revenues over Expenses

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

(r) Federal and State Income Taxes

PeaceHealth and PeaceHealth Networks have received determination letters from the Internal Revenue Service stating that they are exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code except for tax on unrelated business income. It is management's belief that none of its activities have produced material unrelated business income.

The Corporation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that exceeds a 50% probability of being realized. Changes in recognition or measurement are reflected in the period in which the change in estimate occurs.

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

(s) Oregon Hospital Assessment Program and Washington State Safety Net Assessment Program

In the states of Oregon and Washington, PeaceHealth is subject to a provider tax program on certain patient service revenues at qualifying hospitals to increase funding from other sources and obtain additional federal funds to support increased payments to providers for Medicaid services. These programs resulted in assessments paid to the states and enhanced supplemental payments paid to PeaceHealth in the way of lump-sum payment and per claim increases. In 2019 and 2018, these programs resulted in supplemental payments of \$96,119 and \$90,781, respectively, recorded in net patient service revenue, and assessments of \$83,867 and \$81,873, respectively, recorded in other expenses in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

(t) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation to more consistently present financial information between years.

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(u) Recently Adopted or Newly Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. generally accepted accounting principles and International Financial Reporting Standards. The ASU was adopted on July 1, 2018 using the cumulative effect method for those contracts that were not substantially completed as of July 1, 2018. Results for reporting periods after July 1, 2018 are presented under ASC Topic 606, while prior period amounts continue to be presented in accordance with the Corporation's historical accounting under *Revenue Recognition (Topic 605)*. The adoption of the ASU primarily changes the Corporation's presentation of revenues and the provision and allowance for bad debts. The ASU requires that the Corporation recognize revenue based on an estimate of the transaction price expected to be collected as a result of satisfying the performance obligation. Accordingly, for performance obligations satisfied after July 1, 2018, the Corporation no longer separately presents a provision for bad debts on the consolidated statements of operations and changes in net assets without donor restrictions or the related allowance for bad debts on the consolidated balance sheets. The adoption of ASC Topic 606 did not have any impact on the Corporation's recognition of net patient service revenue for any period prior to adoption.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a lease liability and a right-of-use asset for all lease obligations with exception to short-term leases. The lease liability will represent the lessee's obligation to make lease payments arising from the lease measured on a discounted basis and the right-of-use asset will represent the lessee's right to use or control the use of a specified asset for a lease term. The lease guidance also simplifies accounting for sale-leaseback transactions. ASC Topic 842 is effective for the Corporation beginning on July 1, 2019. In 2018, the FASB updated its guidance allowing entities to adopt the provisions of the standard prospectively without adjusting comparative periods. The Corporation is planning to adopt this option. Management expects to record right-of-use assets and lease liabilities of approximately \$97,636 on its consolidated balance sheet in 2020. The adoption of ASC Topic 842 is not expected to have a significant impact on the results of operations or cash flows. The Corporation will include new disclosures in 2020 in accordance with ASC Topic 842.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, to reduce diversity in reporting practice, reduce complexity, and enhance understandability of not-for-profit (NFP) financial statements. This ASU contains the following key aspects: (A) reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; (B) requires all NFPs to present expenses by their functional and their natural classifications in one location in the financial statements; (C) requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date; and (D) retains the option to present operating cash flows in the statement of cash flows using either the direct or indirect method. The Corporation implemented ASU No. 2016-14 as of July 1, 2018, which was adopted retrospectively for the years ended June 30, 2019 and 2018.

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The impact of adoption resulted in enhanced disclosures about the classification of expense and management of liquid resources. As a result of adoption, temporarily restricted and permanently restricted net assets in the amounts of \$71,779 and \$22,728, respectively, were combined to create net assets with donor restrictions as stated on the consolidated balance sheet as of June 30, 2018.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires a company to present service cost separately from the other components of net benefit cost. This ASU is effective for the Corporation's year beginning July 1, 2019, with early adoption permitted. The Corporation is currently evaluating the extent of the anticipated impact of the adoption of ASU No. 2017-07. Upon adoption of the ASU, the Corporation will modify its financial statements and disclosures, including a retrospective reclassification of prior year balances.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that a statement of cash flows explain the change during the reporting period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update are effective for the Corporation's fiscal year beginning July 1, 2019. Early adoption is permitted.

(3) Revenue Recognition

(a) Net Patient Service Revenues

Net patient service revenue relates to contracts with patients involving third-party payors where the Corporation has an obligation to perform healthcare services. This revenue is recorded at the amount due from patients, third-party payors, and others when the performance obligations are satisfied. The adoption of ASU No. 2014-09, *Revenue from Contracts with Customers (ASC Topic 606)* resulted in changes to the presentation of the consolidated statements of operations and changes in net assets without donor restrictions with the provision of bad debts now being considered implicit price concessions that are recognized as a direct deduction to net patient service revenue rather than the presentation of the provision for bad debts, prior to adoption, as a deduction to arrive at net patient service revenue. For the year ended June 30, 2019, \$70,770 of implicit price concessions was recorded as a direct deduction to net patient service revenue. The Corporation bases the implicit price concessions on historical collectibility data by payor using a portfolio approach to recognize the deductions netted against revenue when it is recognized.

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

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

The Corporation maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies under its charity care policy. Estimated costs (based on the proportion of overall costs to charges foregone for charity care) for services and supplies furnished under the charity care policy for the years ended June 30, 2019 and 2018 were approximately \$63,108 and \$35,213, respectively.

(b) Disaggregation of Revenue

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

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

	<u>2019</u>	<u>2018</u>
Medicare	\$ 1,089,872	973,630
Medicaid	348,378	350,856
Commercial and other	1,234,312	1,120,139
Private pay	<u>43,391</u>	<u>101,859</u>
Net patient service revenue	2,715,953	2,546,484
Other revenue	<u>67,995</u>	<u>79,792</u>
Total revenue	<u>\$ 2,783,948</u>	<u>2,626,276</u>

(c) Variable Consideration

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

Net patient service revenue is recognized at the time services are provided to patients. Revenue is recorded in the amount which the Corporation expects to collect, which may include variable components. Variable consideration is included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with variable consideration is subsequently resolved. The Corporation has estimated payments for services rendered to Medicare and Medicaid patients during the year by applying the payment principles of the applicable governmental agencies and believes that an

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adequate provision has been made in the accompanying consolidated financial statements for final settlement. Estimates of final settlements due to and due from Medicare, Medicaid, and other third-party payors have been reflected net as reimbursement settlement payable in the accompanying consolidated balance sheets. Differences between the net amounts accrued and subsequent settlements are recorded in operations at the time of settlement. The net amount of adjustments from finalization and adjustment of prior years' cost reports and other third-party settlements resulted in a decrease in net patient service revenue of approximately \$10,941 and increase of \$3,309 in 2019 and 2018, respectively.

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

(d) Concentration of Credit Risk

There is a corresponding significant concentration of credit risk in net accounts receivable balances at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Medicare	32 %	30 %
Medicaid	10	10
Commercial and other	47	50
Private pay	11	10
	<u>100 %</u>	<u>100 %</u>

(4) Fair Value of Financial Instruments

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

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

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. In accordance with ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, investments valued utilizing net asset value (NAV) as a practical expedient are excluded from the hierarchy.

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

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

The common/collective trusts have been determined to trade daily on an active private exchange at NAV as the trading price and are classified in Level 1 of the fair value hierarchy, as defined above, because their fair values are based on quoted prices for identical securities.

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

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

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(5) Investments

The composition of cash and investments carried at fair value on a recurring basis at June 30, 2019 is set forth in the following table:

	June 30, 2019	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
Assets:				
Short-term investments:				
Cash and cash equivalents	\$ 117,240	117,240	—	—
Fixed income:				
Government, municipal, foreign, and other	224,707	161,674	63,033	—
Mortgage and asset-backed securities	108,596	—	108,596	—
Corporate obligations	149,742	—	149,742	—
Mutual funds	139,108	139,108	—	—
Other short-term investments	56,475	17,422	39,053	—
Common/collective trusts	15,356	—	15,356	—
Total	<u>811,224</u>	<u>435,444</u>	<u>375,780</u>	<u>—</u>
Designated for capital acquisition:				
Cash and cash equivalents	28,567	28,567	—	—
Fixed income:				
Government, municipal, foreign, and other	92,017	66	91,951	—
Corporate obligations	289	289	—	—
Mutual funds:				
Fixed income	103,977	103,977	—	—
Domestic equities	399,707	399,707	—	—
International equities	349,240	349,240	—	—
Other long-term equity investments	46,117	45,962	155	—
Common/collective trusts	12,848	—	12,848	—
Hedge funds and other	58,547	—	58,547	—
Total	<u>1,091,309</u>	<u>927,808</u>	<u>163,501</u>	<u>—</u>
Funds designated for 457 plans:				
Cash and short-term investments	57,093	57,093	—	—
Mutual funds	1,531	1,531	—	—
Total	<u>58,624</u>	<u>58,624</u>	<u>—</u>	<u>—</u>

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	June 30, 2019	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
Trustee-held funds:				
Cash and cash equivalents	\$ 71	71	—	—
Total	71	71	—	—
Total assets at fair value	<u>1,961,228</u>	<u>\$ 1,421,947</u>	<u>539,281</u>	<u>—</u>
Investments measured at NAV:				
Hedge funds	169,169			
Private equity	23,910			
Real estate limited partnerships	<u>44,912</u>			
Total assets	<u>\$ 2,199,219</u>			
Liabilities:				
Interest rate swaps	\$ 123,500	—	123,500	—
Total liabilities	<u>\$ 123,500</u>	<u>—</u>	<u>123,500</u>	<u>—</u>

The composition of cash and investments carried at fair value on a recurring basis at June 30, 2018 is set forth in the following table:

	June 30, 2018	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
Assets:				
Short-term investments:				
Cash and cash equivalents	\$ 70,697	70,697	—	—
Fixed income:				
Government, municipal, foreign, and other	412,852	—	412,852	—
Mortgage and asset-backed securities	53,286	—	53,286	—
Corporate obligations	175,948	—	175,948	—
Mutual funds:				
Equity	141,814	141,814	—	—
Common/collective trusts	25,711	—	25,711	—
Other short-term investments	724	—	724	—
Total	<u>881,032</u>	<u>212,511</u>	<u>668,521</u>	<u>—</u>

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	June 30, 2018	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
Designated for capital acquisition:				
Cash and cash equivalents	7,322	7,322	—	—
Fixed income:				
Government, municipal, foreign, and other	87,556	—	87,556	—
Mortgage and asset-backed securities	28,247	—	28,247	—
Corporate obligations	54,679	—	54,679	—
Mutual funds:				
Fixed income	25,037	25,037	—	—
Domestic equities	450,402	450,402	—	—
International equities	343,414	343,414	—	—
Other long-term equity investments	11,011	10,857	154	—
Hedge funds and other	55,389	—	55,389	—
Total	<u>1,063,057</u>	<u>837,032</u>	<u>226,025</u>	<u>—</u>
Funds designated for 457 plans:				
Cash and short-term investments	1,397	1,397	—	—
Mutual funds	51,565	51,565	—	—
Total	<u>52,962</u>	<u>52,962</u>	<u>—</u>	<u>—</u>
Trustee-held funds:				
Cash and cash equivalents	1,545	1,545	—	—
Total	<u>1,545</u>	<u>1,545</u>	<u>—</u>	<u>—</u>
Total assets at fair value	1,998,596	\$ <u>1,104,050</u>	<u>894,546</u>	<u>—</u>
Investments measured at NAV:				
Hedge funds	148,908			
Private equity	6,487			
Total assets	<u>\$ 2,153,991</u>			
Liabilities:				
Interest rate swaps	\$ 91,915	—	91,915	—
Total liabilities	<u>\$ 91,915</u>	<u>—</u>	<u>91,915</u>	<u>—</u>

The Corporation holds investments in private equity and distressed debt limited partnerships where NAV is used as a practical expedient to measure fair value at June 30, 2019 and 2018. These partnerships do not

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allow for periodic redemptions but rather liquidate upon the termination date as stated in the partnership agreement. Therefore, the private equity investments are considered illiquid investments. At June 30, 2019 and 2018, the Corporation held \$23,910 and \$6,487, respectively, of private equity and distressed debt limited partnerships that had termination dates that ranged from 2019 to 2024.

	<u>2019</u>	<u>2018</u>	<u>Unfunded commitments</u>
Distressed debt	\$ 1,067	1,384	1,899
Private equity	22,843	5,103	11,626
Total	<u>\$ 23,910</u>	<u>6,487</u>	<u>13,525</u>

The following table summarizes investments measured at fair value based on NAV per share as of June 30, 2019 and their redemption restrictions:

	<u>Fair value at June 30, 2019</u>	<u>Fair value at June 30, 2018</u>	<u>Lockup terms or redemption restrictions</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Hedge funds	\$ 32,265	33,993	None	Monthly	10 Days
Hedge funds	15,842	15,763	None	Monthly	30 Days
Hedge funds	17,305	15,573	Gate at 20% of total fund net assets	Monthly	60 Days
Hedge funds	2,769	7,229	None	Monthly	75 Days
Hedge funds	28,987	34,285	None	Semimonthly	30 Days
Hedge funds	16,268	15,624	Gate at 50% of total fund net assets	Quarterly	60 Days
Hedge funds	16,075	15,429	Gate at 10%	Quarterly	65 Days
Hedge funds	11,358	11,012	Withdrawal limits across four successive withdrawal dates	Quarterly	90 Days
Hedge funds	12,374	—	None	Monthly	30 Days
Hedge funds	6,957	—	None	Quarterly	90 Days
Hedge funds	8,969	—	None	Quarterly	60 Days
Real estate	22,778	—	First business day of the calendar quarter with 45 days notice.	Quarterly	45 Days
Real estate	22,134	—	Two-year lock up period	N/A	N/A
	<u>\$ 214,081</u>	<u>148,908</u>			

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Investment return is included in other income (expense) as part of nonoperating income in the consolidated statements of operations and changes in net assets without donor restrictions. Investment return comprises the following for the years ended June 30, 2019 and 2018:

	2019	2018
Interest and dividend income	\$ 42,371	35,906
Net realized gains on sales of investments	24,881	55,508
Net change in unrealized gains on investments	36,282	1,616
Investment return, net	\$ 103,534	93,030

Other Investments

Health Ventures is a not-for-profit corporation that has entered into joint ventures to provide radiology, oncology, and surgery services. PeaceHealth is the sole member of Health Ventures. Health Ventures is included in the consolidated financial statements but is not part of the obligated group. The majority of these joint ventures are accounted for under the equity method. Health Venture's ownership interest in the joint ventures ranged from approximately 24.2% and 50.0% at both June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, the carrying value of the joint ventures was approximately \$15,273 and \$14,518, respectively, and is recorded in investments in joint ventures and other on the consolidated balance sheets. Equity earnings from the joint ventures of \$9,842 and \$9,744 for the years ended June 30, 2019 and 2018, respectively, are included in other operating revenue. The unaudited assets, liabilities, and equity of these joint ventures accounted for under the equity method were \$42,384, \$10,382, and \$32,002, respectively, at June 30, 2019 and \$43,811, \$14,479, and \$29,332, respectively, at June 30, 2018.

At June 30, 2019, Health Ventures had a controlling ownership of 51.02% in Riverbend Ambulatory Surgery Center, which is consolidated within Health Ventures.

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(6) Long-Term Debt

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

	Maturing through	Coupon rates		Unpaid principal	
		2019	2018	2019	2018
(In thousands of dollars)					
Master trust debt					
Fixed rate:					
Series 2008 Washington Bonds, Series A		— %	5.00 %	\$ —	80,650
Series 2009 Oregon Bonds, Series A		— %	3.25–5.00%	—	75,060
Series 2009 Washington Bonds, Series A		— %	3.00–5.00%	—	67,165
2012 Direct Note Obligation to Bank of America	2022	2.32 %	2.32 %	21,235	26,917
2013 Direct Note Obligation to Bank of America	2023	3.23 %	3.23 %	23,679	28,685
2013 Direct Note Obligation to Bank of America	2023	3.92 %	3.92 %	153,221	158,392
2013 Direct Note Obligation to US Bank	2020	3.43 %	3.43 %	—	50,000
Series 2014 Washington Bonds, Series A	2028	2.00–5.00%	2.00–5.00%	30,105	32,385
Series 2014 Oregon Bonds, Series A	2032	4.125%–5.00%	4.125%–5.00%	62,555	64,015
Series 2018 Taxable Bonds	2048	4.79%	— %	355,144	—
Total fixed rate				\$ 645,939	583,269
Variable:					
Series 2008 Oregon Bonds, Series A-B, variable interest rate (A: SIFMA +35 bps and B: SIFMA + 42 bps)		— %	0.02 %	\$ —	145,975
Series 2011 Oregon Bonds, Series A-B, variable interest rate (A: 80%*1ml+62 bps and B: 68%*1ml+57.5 bps),	2047	2.21 %	2.16 %	75,000	150,000
Series 2013 Washington Bonds, Series A, variable interest rate (68%*1ml+ 70 bps),	2034	2.36 %	2.05 %	46,265	47,565
2015 Direct Note Obligation to US Bank, variable interest rate (1ml+ 75 bps),	2020	2.97 %	2.73 %	2,188	4,208
Series 2018 Oregon Bonds, Series A variable interest rate (prevailing market rates),	2034	1.92 %	— %	45,975	—
Series 2018 Oregon Bonds, Series B variable interest rate (prevailing market rates),	2034	1.92 %	— %	100,000	—
Series 2018 Oregon Bonds, Series C variable interest rate (80%*1ml+ 62 bps),	2047	2.57 %	— %	75,000	—
Total variable rate				\$ 344,428	347,748

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

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	Maturing through	Coupon rates		Unpaid principal	
		2019	2018	2019	2018
(In thousands of dollars)					
Unpaid principal, master trust debt				\$ 990,367	931,018
Premium and other on long-term debt				2,571	10,603
Master trust debt, including premiums and discounts, net				992,938	941,621
Other long-term debt				10,881	12,058
Total long-term debt				1,003,819	953,679
Less amounts due within one year				(24,933)	(106,282)
Total long-term debt due after one year				<u>\$ 978,886</u>	<u>847,397</u>

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

PeaceHealth issued debt in fiscal year 2019 to diversify its debt profile and raise funds for future capital needs. Series 2018 taxable fixed rate bonds with a par amount of \$355,144 were issued to refinance the 2008 Washington Bonds Series A and 2013 direct note obligation with US Bank, defease the 2009 Oregon Bonds Series A and 2009 Washington Bonds Series A and provide \$70,000 of funds for future capital needs. PeaceHealth issued 2018 tax-exempt Oregon variable rate demand bonds Series A-B to refinance the outstanding 2008 Oregon Bonds Series A-B. Additionally, PeaceHealth issued 2018 tax-exempt Oregon Bonds Series C to refinance the 2011 Oregon Bonds Series A.

The Series 2011 Oregon Series A-B Direct Placement Bonds, the Washington 2013(A) Direct Placement Bonds, and the 2018 Oregon Series A-B Variable Rate Demand Bonds have variable interest rates that may bear interest at a daily, weekly, 28-day, monthly, semiannual, or annual rates. The rate determination mode may be changed upon request of PeaceHealth and PeaceHealth Networks. The bonds are subject to optional redemption by PeaceHealth and PeaceHealth Networks, in whole or in part at 100% of the principal amount plus accrued interest. The 2011 Oregon bonds are held directly by two financial institutions subject to continuing covenant agreements, which contain substantially the same credit terms as the letters of credit, but which are not subject to the same remarketing and put risk as the 2008 bonds. The 2011 Oregon bonds and Washington 2013(A) bonds can be converted to publicly held variable rate demand bonds if PeaceHealth and PeaceHealth Networks chooses. The continuing covenant agreements for the Oregon 2011 Direct Placement Bonds expire in February 2020 for Series (A) and August 2021 for Series (B). The continuing covenant agreement for the Washington 2013(A) bonds requires a minimum two-year notice period prior to any anniversary of the date of issue occurring on or after February 27, 2016 to be given from the bank to PeaceHealth if the bank chooses to no longer hold the debt, provided that PeaceHealth is in compliance with financial covenants. With the exception of the Washington 2013(A) bonds, where the bank must give a two-year notice if it wishes to terminate its holding of PeaceHealth's debt, the letters of credit and the continuing covenant agreements are extendable annually at the option of the bank upon request from PeaceHealth and PeaceHealth Networks for an additional year. The 2011 and

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2013(A) bonds are matched to fixed payor swaps ranging between 3.60% and 4.10% for approximately their par value, the notional amounts of swaps amortizing proportionately to the bonds.

Other long-term debt includes \$10,399 in capital leases and other debt.

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

	<u>Long-term debt</u>	<u>Capitalized leases and other</u>	<u>Total</u>
Year ending June 30:			
2020	\$ 24,780	882	25,662
2021	23,443	1,921	25,364
2022	24,304	475	24,779
2023	22,144	476	22,620
2024	139,914	476	140,390
Thereafter	<u>755,782</u>	<u>9,033</u>	<u>764,815</u>
Total	<u>\$ 990,367</u>	13,263	1,003,630
Less amounts representing interest		<u>(2,382)</u>	(2,382)
Present value of net minimum capital lease payments		<u>\$ 10,881</u>	
Total long-term debt			<u>\$ 1,001,248</u>

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

Cash paid for interest totaled approximately \$35,048 and \$31,898 for the years ended June 30, 2019 and 2018, respectively.

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

PEACEHEALTH NETWORKS
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

(7) Accounting for Derivative Instruments and Hedging Activities

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

The Corporation has interest rate swap contracts outstanding as of June 30, 2019 and 2018, respectively, with a total current notional amount of approximately \$372,675 and \$376,625. The Corporation uses the fixed payor swaps to convert a portion of the outstanding variable rate bonds to fixed rates ranging from 3.50% to 4.10%. The fixed payor interest rate swaps are associated with the variable rate bonds but have not been integrated to any of the underlying debt for the purpose of hedge accounting.

Change in valuation of interest rate swaps consists of the noncash change in the liability primarily due to changes in market bond yields, as well as the cash payments and receipts associated with the swaps, and the amortization of the accumulated hedge effectiveness included in net assets. The noncash change in the fair value of the interest rate swaps was an increase of \$31,585 and a decrease of \$21,174 in the liability for the years ended June 30, 2019 and 2018, respectively. Net cash settlement cost for the interest rate swaps was \$8,762 and \$10,955, for the years ended June 30, 2019 and 2018, respectively. The amortization of the accumulated hedge effectiveness included in net assets was \$78 for both years ended June 30, 2019 and 2018.

Derivative instruments are recorded at fair value taking into consideration the Corporation's nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. The impact of taking into account the nonperformance risk on the estimated fair value of the interest rate swaps was a benefit of approximately \$8,310 and \$8,407, as of June 30, 2019 and 2018, respectively. Recording the interest rate swaps at fair value results in a total liability of \$123,500 and \$91,915 as of June 30, 2019 and 2018, respectively, in other long-term liabilities in the accompanying consolidated balance sheets rather than the \$131,810 and \$100,322 that would be paid if all of the swaps were terminated as of June 30, 2019 and 2018, respectively. The inputs used to determine the impact of the counterparty nonperformance risk are Level 2 inputs; as such derivative liabilities have been recorded as Level 2 in the Corporation's disclosure of fair value instruments (note 5).

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

PEACEHEALTH NETWORKS
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

The following is a summary of the derivative instruments in place as of June 30, 2019 and 2018:

Maturity date	Current notional amounts at June 30, 2019	Current notional amounts at June 30, 2018	Counterparty	Credit value adjustment at June 30, 2019	Liability fair value at June 30, 2019	Credit value adjustment at June 30, 2018	Liability fair value at June 30, 2018
August 01, 2034	\$ 45,000	45,000	Union Bank, N.A.	\$ 504	(13,026)	484	(9,749)
May 24, 2047	75,000	75,000	Deutsche Bank AG	3,152	(33,959)	3,251	(24,946)
May 22, 2047	75,000	75,000	Deutsche Bank AG	3,152	(33,959)	3,250	(24,946)
August 01, 2034	50,000	50,000	U.S. Bank N.A.	586	(15,103)	570	(11,454)
August 01, 2034	50,000	50,000	U.S. Bank N.A.	585	(15,092)	569	(11,443)
September 01, 2034	44,925	46,225	Morgan Stanley Capital Services LLC	279	(8,634)	247	(6,325)
September 01, 2034	32,750	35,400	Morgan Stanley Capital Services LLC	52	(3,727)	36	(3,052)
	<u>\$ 372,675</u>	<u>376,625</u>		<u>\$ 8,310</u>	<u>(123,500)</u>	<u>8,407</u>	<u>(91,915)</u>

(8) Benefit Plans

(a) Defined-Benefit Pension Plan

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

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

PEACEHEALTH NETWORKS

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The following table sets forth disclosures related to the Plans in accordance with FASB ASC Paragraph 715-20-65, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of June 30, 2019 and 2018, measured as of January 1, 2019 and January 1, 2018, respectively:

	Years ended June 30	
	2019	2018
Change in projected benefit obligation:		
Projected benefit obligation (PBO) at beginning of period	\$ 230,593	250,060
Service cost	1,370	1,680
Interest cost	8,376	7,728
Actuarial gain on PBO	24,021	(10,848)
Benefits and administrative expenses paid	<u>(11,085)</u>	<u>(18,027)</u>
Projected benefit obligation at June 30	<u>\$ 253,275</u>	<u>230,593</u>
Change in fair value of plan assets:		
Fair value of assets at beginning of period	\$ 187,958	181,009
Actual return on plan assets	18,430	13,776
Employer contribution	5,203	11,200
Benefits paid	(9,576)	(16,200)
Administrative expenses	<u>(1,509)</u>	<u>(1,827)</u>
Fair value of assets at June 30	<u>\$ 200,506</u>	<u>187,958</u>
Reconciliation of funded status:		
Funded status	<u>\$ (52,768)</u>	<u>(42,634)</u>
Net amount recognized	<u>\$ (52,768)</u>	<u>(42,634)</u>
Amounts recognized in the consolidated balance sheets consist of:		
Accrued pension liability	\$ 52,768	42,634
Accumulated change in net assets	(26,109)	(15,975)

Net periodic benefit cost for the years ended June 30, 2019 and 2018 included the following components and is included in changes in net assets without donor restrictions:

	2019	2018
Service cost	\$ 1,370	1,680
Interest cost	8,376	7,728
Expected return on plan assets	(12,721)	(12,432)
Amortization of loss	<u>5,017</u>	<u>6,565</u>
Net periodic pension cost	<u>\$ 2,042</u>	<u>3,541</u>

PEACEHEALTH NETWORKS
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

(b) Assumptions

The Corporation used the following actuarial assumptions to determine its benefit obligations at June 30, 2019 and 2018 with measurement dates of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Discount rate	Plan I 3.30% and Plan II 3.26%	Plan I 4.03% and Plan II 3.99%

The Corporation used the following actuarial assumptions to determine its net periodic benefit cost for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Discount rate	4.03 %	3.70 %
Expected long-term rate of return on plan assets	6.80	7.00

This discount rate is based on a proprietary yield curve tool used by the Plans' actuary, which uses a composite of high-yield, investment-grade corporate bonds, and the projected payouts from the Plans to develop an equivalent yield rate to use in determining plan liabilities.

The expected long-term rate of return on plan assets was based on the asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. The actual return on pension plan assets was a gain of approximately 9.41% and 11.30% for Plan I and Plan II, respectively, during the year ended June 30, 2019. The actual return on pension plan assets was a gain of approximately 7.30% for both Plan I and Plan II during the year ended June 30, 2018. In the calculation of pension plan expense, the expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a four-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns and expected returns based on the long-term rate of return assumptions.

(c) Pension Plan Assets

The asset allocation of the Corporation's pension plan at June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Equity securities	\$ 80,712	110,807
Debt securities	119,046	76,057
Other	748	1,094
Total	<u>\$ 200,506</u>	<u>187,958</u>

PEACEHEALTH NETWORKS

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Pension plan assets are managed according to an investment policy adopted by the Plans' trustees. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objective of the Plans' trustees is to achieve the highest possible total return commensurate with safety and preservation of capital in real, inflation-adjusted terms. The objective includes having funds invested in the long term, which protect the principal and produce returns sufficient to meet future benefit obligations. The investment policy includes an asset allocation that includes equity securities, debt securities, and cash/other investments. The target allocations are 40% bonds and 60% equity. Assets are rebalanced quarterly when balances fall outside of the approved range for each asset class.

In accordance with FASB ASC Topic 820, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels and the adoption of FASB ASC Topic 820 are further discussed in note 3.

Following is a description of the valuation methodologies used for plan assets measured at fair value.

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

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

PEACEHEALTH NETWORKS
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

The following table sets forth by level, within the fair value hierarchy, the Plans' assets at fair value as of June 30, 2019:

<u>Assets</u>	<u>Total fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds:				
Equity securities	\$ 48,235	48,235	—	—
Debt securities	32,477	32,477	—	—
Total mutual fund securities	80,712	80,712	—	—
Other securities:				
Cash and money markets	119,046	119,046	—	—
Total other securities	119,046	119,046	—	—
Total plan assets at fair value	199,758	\$ 199,758	—	—
Investments at NAV	748			
Total plan assets	\$ 200,506			

The following table sets forth by level, within the fair value hierarchy, the Plans' assets at fair value as of June 30, 2018:

<u>Assets</u>	<u>Total fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds:				
Equity securities	\$ 110,807	110,807	—	—
Debt securities	76,057	76,057	—	—
Total mutual fund securities	186,864	186,864	—	—
Other securities:				
Cash and money markets	50	50	—	—
Total other securities	50	50	—	—
Total plan assets at fair value	186,914	\$ 186,914	—	—
Investments at NAV	1,044			
Total plan assets	\$ 187,958			

PEACEHEALTH NETWORKS
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

The following table provides information regarding redemption of investments where NAV has been used as a practical expedient at June 30, 2019 and June 30, 2018:

	2019	2018
Private equity	\$ 748	1,044
Total	\$ 748	1,044

At June 30, 2019 and 2018, the Plans held \$748 and \$1,044, respectively, in alternative investments that are not actively marketed on an open exchange. These investments consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Due to the nature of these funds, the NAV is used as a practical expedient to measure fair value at June 30, 2019 and 2018. These private equity partnerships do not allow for periodic redemptions but rather liquidate upon the termination date as stated in the partnership agreement. Therefore, the private equity investment is considered an illiquid investment. At June 30, 2019, the Corporation held \$748 of private equity limited partnerships that had a termination date of June 2020, but may be extended by up to three additional one-year periods.

(d) Cash Flows

The Corporation'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 the start of fiscal year 2020, the Corporation contributed \$8,800 to the Plan for the plan year ended December 31, 2018. In the start of fiscal year 2019, the Corporation contributed \$5,203 to the Plan for the plan year ended December 31, 2017.

Benefit payments are expected to be paid as follows for the fiscal years ended June 30:

	Pension benefits
2020	\$ 13,168
2021	12,469
2022	12,878
2023	13,228
2024	13,514
2025–2029	69,716

Expected benefit payments presented above are based on actuarial estimates. Actual benefit payments may vary significantly from these estimates.

PEACEHEALTH NETWORKS

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(9) Defined-Contribution Retirement Plans

PeaceHealth sponsors two defined-contribution retirement plans, the Southwest Washington Health System Retirement Plan and the PeaceHealth Plan. These plans cover substantially all employees of PeaceHealth meeting certain age and length of service requirements. Total defined-contribution retirement plan costs charged to operations were approximately \$77,116 and \$73,327 for the years ended June 30, 2019 and 2018, respectively, which are included in payroll taxes and benefits in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

PeaceHealth Deferred Compensation Plans

The estimated fair value associated with the plan assets of PeaceHealth's 457(b) and 457(f) postretirement savings plans, in the amount of approximately \$58,624 and \$52,962 at June 30, 2019 and 2018, respectively, is included in assets whose use is limited, cash and investments, with a corresponding amount included in other long-term liabilities. Contributions associated with these funds in 2019 and 2018 were \$9,235 and \$7,972, respectively, and are included in payroll taxes and benefits in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

(10) Net Assets with Donor Restrictions

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

	<u>2019</u>	<u>2018</u>
Purchase of property, plant, and equipment	\$ 8,009	13,788
Hospice and indigent care	14,643	15,445
Patient care	24,461	25,244
Childrens services	2,246	3,100
Training and education	1,796	3,572
Other	<u>37,759</u>	<u>33,358</u>
	<u>\$ 88,914</u>	<u>94,507</u>

Approximately \$7,188 and \$3,095 was released from restriction for capital expenditures made during 2019 and 2018, respectively.

PEACEHEALTH NETWORKS
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Charitable Gift Annuities

PeaceHealth has been granted a license by the state of Washington, Office of Insurance Commissioner, to issue Charitable Gift Annuities in support of its charitable activities. The Corporation has delegated all its charitable fundraising activities to several fundraising foundations whose net assets held for the beneficial interest of PeaceHealth are shown on the consolidated balance sheets of the Corporation. The liability for annuity contracts issued under the PeaceHealth license and the separately maintained reserve accounts are recorded on the books of PeaceHealth. As of June 30, 2019 and 2018, the following liabilities for annuity contracts issued under the PeaceHealth license and reserve account investments were recorded:

	2019	2018
State of Washington gift annuity liabilities (other long-term liabilities)	\$ 512	495
Gift annuity reserve accounts (other assets whose use is limited, cash, and investments)	587	619

(11) Commitments and Contingent Liabilities

(a) Litigation

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

(b) Operating Leases

The Corporation leases, for a nominal amount, the buildings and certain equipment for Ketchikan General Hospital from the City of Ketchikan, Alaska under a 10-year lease that expires in 2023.

The Corporation leases, from Skagit County Public Hospital District No. 304, the buildings and certain equipment for United General Medical Center in Sedro Woolley, Washington under a 30-year lease that expires in 2044.

PEACEHEALTH NETWORKS

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Rent and lease expense future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2019 are as follows:

	Operating leases
Year ending June 30:	
2020	\$ 17,896
2021	18,045
2022	17,292
2023	13,449
2024	10,852
Later years, 2025 through 2029	25,632
Total minimum lease payments	\$ 103,166

Rent expense related to all operating leases was \$27,280 and \$23,503 during the years ended June 30, 2019 and 2018, respectively, and was included in purchased services in the consolidated statements of operations and changes in net assets without donor restrictions.

(c) Collective Bargaining Agreements

Approximately 56% and 53% of the Corporation's employees are covered under collective bargaining agreements, including nurses, professional employees, and service employees as of June 30, 2019 and 2018, respectively. The Corporation is currently negotiating certain expired collective bargaining agreements. The Corporation's various collective bargaining agreements expire between March 2019 and September 2021.

(12) Insurance Coverages

The Corporation has a self-insurance program for hospital and physician professional and general liability claims under which the Corporation contributes actuarially determined amounts to a trust to fund estimated ultimate losses. During the year ended June 30, 2019, the Corporation dissolved the trust. In connection with the self-insurance program, the Corporation has accrued estimates for asserted and incurred but not reported claims, including both the expected liability under each claim and the cost to administer the claim. Self-insured professional and general liability retention in 2019 and 2018 was \$5,000 per occurrence and \$17,000 in aggregate. Individual general and professional liability claims in excess of the above self-insured retention levels are insured through claims-made excess insurance policy.

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

PEACEHEALTH NETWORKS

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Based on actuarial studies, the Corporation has recorded an undiscounted liability for all of the self-insurance programs of approximately \$92,762 and \$91,682 at June 30, 2019 and 2018, respectively. The liabilities are classified within other current liabilities and other long-term liabilities based on the historical amounts paid within one year. Total current amounts included in other current liabilities were approximately \$19,166 and \$27,627 at June 30, 2019 and 2018, respectively. Management has recorded amounts receivable from excess insurance carriers totaling approximately \$7,302 and \$7,451 as of June 30, 2019 and 2018, respectively, which is included in other receivables in the accompanying consolidated balance sheets.

The Corporation is a minority investor in American Excess Insurance Exchange (AEIX). AEIX is a risk retention group owned by a group of healthcare providers and provides them with excess professional liability insurance coverage. The Corporation accounts for its interest in AEIX on the equity method of accounting less mandatory withdrawal penalties and an estimated discount to present value. As of June 30, 2019 and 2018, the carrying value of AEIX was approximately \$4,744 and \$3,587, respectively, and is recorded in investments in joint ventures and other on the consolidated balance sheets. Investment income from AEIX is recorded as an adjustment to supplies and other operating expenses in the accompanying consolidated statements of operations and change in net assets without donor restrictions.

(13) Functional Expenses

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

	2019		
	Patient care	General and administrative	Total expenses
Salaries and wages	\$ 1,287,207	61,437	1,348,644
Payroll taxes and benefits	137,459	140,835	278,294
Supplies	422,468	485	422,953
Purchased services	223,358	41,039	264,397
Other	226,376	20,076	246,452
Depreciation and amortization	96,486	42,186	138,672
Interest and amortization of deferred financing costs	540	34,656	35,196
Total	\$ 2,393,894	340,714	2,734,608

PEACEHEALTH NETWORKS
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

	2018		
	Patient care	General and administrative	Total expenses
Salaries and wages	\$ 1,205,374	55,314	1,260,688
Payroll taxes and benefits	128,341	128,185	256,526
Supplies	397,637	738	398,375
Purchased services	190,380	31,299	221,679
Other	221,470	6,175	227,645
Depreciation and amortization	95,715	43,354	139,069
Interest and amortization of deferred financing costs	583	31,315	31,898
Total	\$ 2,239,500	296,380	2,535,880

(14) Discontinued Operations – Columbia United Providers

PeaceHealth Networks' majority-owned subsidiary, Columbia United Providers (CUP), entered into an asset purchase agreement to sell certain Medicaid assets to Molina Health Care of Washington, Inc. (Molina) on December 31, 2015. Molina purchased the right to assume CUP's Medicaid membership in the state of Washington, as well as certain other rights and assets, including the assumption of CUP's assignable provider contracts, related to the operation of the Medicaid business. As of December 31, 2015, CUP discontinued all of its Medicaid and Individual healthcare plan coverages, and subsequently discontinued all administrative services only (ASO) services provided to local companies. CUP withdrew its certificate of authority with the Washington State Office of the Insurance Commissioner effective April 30, 2017 and is in the final stages of the dissolution process.

The results of CUP from discontinued operations are disclosed under discontinued operations for the years ended June 30, 2019 and 2018. Total from operations of CUP were a gain of \$0 and a gain of \$4,045 for the years ended June 30, 2019 and 2018, respectively. CUP is in the final stages of discontinuation and closed as of June 30, 2019.

(15) Subsequent Events

In connection with the preparation of the consolidated financial statements in accordance with FASB ASC Topic 855, *Subsequent Events*, the Corporation has evaluated subsequent events through September 27, 2019, which is the date the consolidated financial statements were issued.

ADDITIONAL INFORMATION

PEACEHEALTH NETWORKS
Consolidating Balance Sheet Information
June 30, 2019
(In thousands)

Assets	Obligated group	PeaceHealth Southwest Foundation	Other nonobligated group	Eliminating or consolidating adjustments	PeaceHealth consolidated
Current assets:					
Cash and cash equivalents	\$ 34,517	1,113	11,255	—	46,885
Short-term investments	862,785	—	—	—	862,785
Accounts receivable, net	356,181	—	4,113	—	360,294
Other receivables	43,076	—	623	—	43,699
Inventory of supplies	43,552	—	993	—	44,545
Prepaid expenses and other	30,039	—	481	—	30,520
Assets whose use is limited that are required for current liabilities	77	6,830	—	—	6,907
Total current assets	1,370,227	7,943	17,465	—	1,395,635
Assets whose use is limited:					
Cash and investments	1,314,448	20,015	1,971	—	1,336,434
Investments in joint ventures and other	98,705	5,244	15,273	(92,341)	26,881
Total assets whose use is limited	1,413,153	25,259	17,244	(92,341)	1,363,315
Less current portion	(77)	(6,830)	—	—	(6,907)
Net assets whose use is limited	1,413,076	18,429	17,244	(92,341)	1,356,408
Property, plant, and equipment:					
Land and improvements	142,351	—	—	—	142,351
Buildings, fixed equipment, and other	1,772,058	—	29,940	(22,347)	1,779,651
Moveable equipment	914,902	—	15,830	—	930,732
Construction in progress	151,420	—	20	—	151,440
Total property, plant, and equipment	2,980,731	—	45,790	(22,347)	3,004,174
Less accumulated depreciation	(1,727,795)	—	(18,693)	6,706	(1,739,782)
Net property, plant, and equipment	1,252,936	—	27,097	(15,641)	1,264,392
Interest in net assets of related foundations	95,189	102	—	(25,953)	69,338
Other assets	33,264	—	70,207	—	103,471
Total assets	\$ 4,164,692	26,474	132,013	(133,935)	4,189,244

PEACEHEALTH NETWORKS
Consolidating Balance Sheet Information
June 30, 2019
(In thousands)

Liabilities and Net Assets	Obligated group	PeaceHealth Southwest Foundation	Other nonobligated group	Eliminating or consolidating adjustments	PeaceHealth consolidated
Current liabilities:					
Accounts payable	\$ 135,033	—	2,911	—	137,944
Accrued payroll, payroll taxes, and employee benefits	147,833	—	2,587	—	150,420
Accrued interest payable	4,193	—	—	—	4,193
Other current liabilities	40,319	—	293	—	40,612
Pending trades payable	17,348	—	—	—	17,348
Current portion of long-term debt	26,011	—	—	(1,078)	24,933
Total current liabilities	370,737	—	5,791	(1,078)	375,450
Other long-term liabilities	331,144	—	9,769	—	340,913
Long-term debt, net of current portion	986,474	—	9,791	(17,379)	978,886
Net assets:					
Without donor restrictions, controlling interest	2,386,113	7,254	101,433	(94,948)	2,399,852
Without donor restrictions, noncontrolling interest	—	—	5,229	—	5,229
With donor restrictions	90,224	19,220	—	(20,530)	88,914
Total net assets	2,476,337	26,474	106,662	(115,478)	2,493,995
Total liabilities and net assets	\$ 4,164,692	26,474	132,013	(133,935)	4,189,244

See accompanying independent auditors' report.

PEACEHEALTH NETWORKS
Consolidating Statement of Operations and
Changes in Net Assets Without Donor Restrictions Information

Year ended June 30, 2019

(In thousands)

	Obligated group	PeaceHealth Southwest Foundation	Other nonobligated group	Eliminating or consolidating adjustments	PeaceHealth consolidated
Revenues:					
Net patient service revenue	\$ 2,684,609	—	31,344	—	2,715,953
Other operating revenue	57,192	1,484	11,402	(2,083)	67,995
Total revenues	2,741,801	1,484	42,746	(2,083)	2,783,948
Expenses:					
Salaries and wages	1,330,633	—	18,011	—	1,348,644
Payroll taxes and benefits	274,461	—	3,833	—	278,294
Supplies	418,569	—	4,614	(230)	422,953
Purchased services	259,592	—	5,064	(259)	264,397
Other	241,847	1,715	2,890	—	246,452
Depreciation and amortization	135,459	—	3,950	(737)	138,672
Interest and amortization of deferred financing costs	35,791	—	739	(1,334)	35,196
Total expenses	2,696,352	1,715	39,101	(2,560)	2,734,608
Income from operations	45,449	(231)	3,645	477	49,340
Other income (expense):					
Investment income, net	104,395	(123)	—	(738)	103,534
Net change in interest rate swaps	(40,346)	—	—	—	(40,346)
Other	(3,931)	—	7	—	(3,924)
Total other income	60,118	(123)	7	(738)	59,264
Excess of revenues over expenses from continued operations	105,567	(354)	3,652	(261)	108,604
Net assets released from restrictions for property, plan, and equipment	7,188	—	—	—	7,188
Change in interest in net assets of related foundations	751	—	—	(751)	—
Change in pension liability	(15,337)	—	—	—	(15,337)
Other changes in net assets	3,444	—	78,604	(83,876)	(1,828)
Increase in net assets without donor restrictions	\$ 101,613	(354)	82,256	(84,888)	98,627

See accompanying independent auditors' report.

PEACEHEALTH NETWORKS

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2019

(In thousands)

	<u>Obligated group</u>	<u>PeaceHealth Southwest Foundation</u>	<u>Other nonobligated group</u>	<u>Eliminating or consolidating adjustments</u>	<u>PeaceHealth consolidated</u>
Net assets at June 30, 2018	\$ 2,381,343	29,254	24,407	(34,043)	2,400,961
Excess of revenues over expenses from continued operations	105,566	(354)	3,654	(262)	108,604
Other restricted contributions	7,188	—	—	—	7,188
Net assets released from restrictions	—	(930)	—	—	(930)
Transfer to related division	(917)	—	917	—	—
Change in interest in net assets of related foundations	(5,770)	30	—	2,703	(3,037)
Change in pension liability	(15,337)	—	—	—	(15,337)
Other changes in net assets	4,263	(1,529)	77,887	(83,875)	(3,454)
Change in net assets	<u>94,993</u>	<u>(2,783)</u>	<u>82,258</u>	<u>(81,434)</u>	<u>93,034</u>
Net assets at June 30, 2019	\$ <u>2,476,336</u>	<u>26,471</u>	<u>106,665</u>	<u>(115,477)</u>	<u>2,493,995</u>

See accompanying independent auditors' report.