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Report of Independent Auditors

To the Board of Directors
Renown Health

Report on the Financial Statements

We have audited the accompanying combined financial statements of Renown Health, which comprise the combined balance sheets as of June 30, 2021 and 2020, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Renown Health as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2021, on our consideration of Renown Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Renown Health's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Renown Health's internal control over financial reporting and compliance.

Mass Adams LLP

San Francisco, California
August 30, 2021

Combined Financial Statements

Renown Health
Combined Balance Sheets (In Thousands)
June 30, 2021 and 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 390,743	\$ 205,763
Marketable securities	765,096	747,262
Patient accounts receivable	160,790	131,084
Other receivables	37,791	37,262
Inventories	35,630	39,581
Prepaid expenses and other	20,669	18,604
Assets held for sale	-	9,690
Total current assets	1,410,719	1,189,246
FUNDS HELD IN TRUST	183,685	21,451
PROPERTY AND EQUIPMENT, net	612,876	600,723
OPERATING LEASE RIGHT-OF-USE ASSETS, net	19,862	23,698
GOODWILL	6,662	6,662
INVESTMENTS IN AFFILIATED COMPANIES	83,235	65,918
OTHER ASSETS	11,495	9,909
Total assets	<u>\$ 2,328,534</u>	<u>\$ 1,917,607</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 46,787	\$ 43,781
Medical claims payable	24,059	31,546
Accrued payroll and related liabilities	64,284	62,127
Current maturities of long-term debt	19,719	14,857
Current portion of operating lease right-of-use liabilities	4,899	5,244
Other current liabilities	81,832	89,133
Total current liabilities	241,580	246,688
LONG-TERM DEBT	815,268	442,467
INTEREST RATE SWAPS	-	63,402
OPERATING LEASE RIGHT-OF-USE LIABILITIES, net of current portion	15,700	18,701
OTHER LIABILITIES	46,790	29,476
Total liabilities	<u>1,119,338</u>	<u>800,734</u>
NET ASSETS		
Without donor restrictions	1,194,931	1,098,575
With donor restrictions	14,265	18,298
Total net assets	<u>1,209,196</u>	<u>1,116,873</u>
Total liabilities and net assets	<u>\$ 2,328,534</u>	<u>\$ 1,917,607</u>

Renown Health
Combined Statements of Operations (In Thousands)
Years Ended June 30, 2021 and 2020

	2021	2020
REVENUES AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS		
Patient service revenues	\$ 997,909	\$ 921,350
Premium revenues	402,326	412,325
Other revenues	90,669	91,636
Total revenues and other support without donor restrictions	1,490,904	1,425,311
EXPENSES		
Salaries and wages	609,937	575,925
Employee benefits	79,477	72,579
Supplies	238,692	212,981
Professional fees	32,567	30,995
Health care expenses	229,277	219,473
Purchased services	143,125	125,652
Repairs and maintenance	10,298	7,846
Utilities and telephone	9,876	10,176
Insurance	3,506	3,087
Depreciation and amortization	64,272	59,286
Interest	9,407	19,670
Rental and lease	10,182	9,483
Other	50,569	61,293
Total expenses	1,491,185	1,408,446
OPERATING (LOSS) INCOME	(281)	16,865
OTHER GAINS AND (LOSSES)		
Investment income, net	97,623	24,135
Retirement plan termination settlement	-	(2,633)
Income tax provision	1,631	(1,705)
Loss on interest rate swaps	(1,719)	(19,482)
Settlement of interest rate swaps	(28,725)	-
Extinguishment of debt	(7,379)	-
Total other gains and (losses)	61,431	315
REVENUES IN EXCESS OF EXPENSES	61,150	17,180
Changes in net unrealized (losses) gains on investments	(120)	138
Changes in net unrealized gains on interest rate swaps	464	1,850
Settlement of interest rate swaps	28,725	-
Other changes	(593)	(1,281)
Retirement plan termination settlement	-	2,633
Contributions and grants released from restrictions for property acquisitions	6,730	1,374
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 96,356	\$ 21,894

Renown Health
Combined Statements of Changes in Net Assets (In Thousands)
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues in excess of expenses	\$ 61,150	\$ 17,180
Change in net unrealized (losses) gains on investments	(120)	138
Change in net unrealized gains on interest rate swaps	464	1,850
Settlement of interest rate swaps	28,725	-
Other changes	(593)	(1,281)
Retirement plan termination settlement	-	2,633
Contributions and grants released from restrictions for property acquisitions	<u>6,730</u>	<u>1,374</u>
Changes in net assets without donor restrictions	<u>96,356</u>	<u>21,894</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and related investment income, net	32,805	33,531
Net assets released from restrictions	<u>(36,838)</u>	<u>(36,123)</u>
Changes in net assets with donor restrictions	<u>(4,033)</u>	<u>(2,592)</u>
CHANGES IN NET ASSETS	92,323	19,302
NET ASSETS, beginning of year	<u>1,116,873</u>	<u>1,097,571</u>
NET ASSETS, end of year	<u>\$ 1,209,196</u>	<u>\$ 1,116,873</u>

Renown Health
Combined Statements of Cash Flows (In Thousands)
Years Ended June 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 92,323	\$ 19,302
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	64,272	59,286
Contributions received restricted for long-term purposes	(4,147)	(1,433)
Loss on property and equipment, net	6,071	7,405
Gain on investments, net	(83,967)	(8,592)
Loss on extinguishment of debt	7,379	-
Change in fair value on interest rate swaps	1,255	17,632
Amortization of bond premium, net and debt issuance costs	(16,699)	(277)
Gain on investments in affiliated companies	(9,345)	(4,641)
Changes in operating assets and liabilities:		
Receivables	(30,295)	(1,079)
Inventories, prepaid expenses and other and other assets	300	171
Operating lease right-of-use assets and liabilities	153	247
Accounts payable and accrued expenses, medical claims payable and accrued payroll and related liabilities	(2,324)	7,238
Other liabilities	6,127	64,162
	<u>31,103</u>	<u>159,421</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(79,117)	(76,766)
Proceeds from sale of property and equipment	10,555	140
Purchase of marketable securities	(713,148)	(639,332)
Proceeds from marketable securities	779,678	621,395
Purchase of investments in affiliated companies	(7,972)	-
Settlement of interest rate swaps	(64,657)	-
	<u>(74,661)</u>	<u>(94,563)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	574,599	-
Payments for debt issuance costs	(5,568)	-
Principal payments on long-term debt	(182,048)	(13,160)
Principal payments on finance lease liabilities	(358)	(100)
Contributions received restricted for long-term purposes	4,147	1,433
	<u>390,772</u>	<u>(11,827)</u>
Net cash provided by (used in) financing activities		
NET CHANGES IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	<u>347,214</u>	<u>53,031</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	<u>227,214</u>	<u>174,183</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	<u>\$ 574,428</u>	<u>\$ 227,214</u>

Renown Health
Combined Statements of Cash Flows (In Thousands) (Continued)
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year are comprised of the following:		
Cash and cash equivalents	\$ 390,743	\$ 205,763
Funds held in trust	<u>183,685</u>	<u>21,451</u>
	<u>\$ 574,428</u>	<u>\$ 227,214</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest, net of amount capitalized	<u>\$ 22,025</u>	<u>\$ 20,116</u>
Cash paid for income taxes	<u>\$ 2,315</u>	<u>\$ 2,016</u>

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Renown Health is a tax-exempt comprehensive integrated health care delivery network located in Reno, Nevada. The principal operating subsidiaries of Renown Health are:

- Renown Regional Medical Center (“Regional”) is a tax-exempt 501(c)(3) Nevada nonprofit corporation that operates an 808 licensed bed general acute care facility. Regional provides a full range of medical services to both inpatients and outpatients.
- Renown South Meadows Medical Center (“South Meadows”) is a tax-exempt 501(c)(3) Nevada nonprofit corporation that operates a 115 licensed bed acute care community hospital. South Meadows also operates a 62 licensed bed rehabilitation hospital under the name Renown Rehabilitation Hospital (“Rehab”).
- Renown Businesses (“Businesses”) is a taxable Nevada for profit corporation that operates professional office buildings and various commercial businesses. The commercial businesses, Doing Business As (“DBA”) Artisans Market and Bistro, The Inn at Renown, The Shops at Renown, Materiel Solutions, Starbucks and Subway, provide services to patients, physicians and employees. In addition, Businesses owns Northern Sierra Dialysis Center, LLC, a taxable dialysis company.
- Hometown Health Plan, Inc. (“Hometown Plan”) is a tax-exempt 501(c)(4) Nevada nonprofit corporation that operates a health maintenance organization (“HMO”).
- Hometown Health Management Company (“Hometown Management”) is a taxable Nevada nonprofit corporation that provides management services to Hometown Plan and a fully owned subsidiary, Hometown Health Providers Insurance Co., a taxable Nevada nonprofit corporation that operates a preferred provider organization (“PPO”). In addition, Hometown Management has interests in other health care-related business in the form of medical groups (DBA Renown Health Medical Group), urgent cares and specialty clinics.
- Renown Transitional Care Services (“Transitional Care”) is a tax-exempt 501(c)(3) Nevada nonprofit corporation that operates an obstetrics clinic to improve access to care and acts as the investment repository for Renown Health.
- Renown Health Foundation (“Foundation”) is a tax-exempt 501(c)(3) Nevada nonprofit corporation that was organized for the purpose of raising funds for Renown Health and its related entities to benefit the community.

In June 2021, Renown Health entered into an affiliation agreement with the University of Nevada, Reno School of Medicine for the purpose of establishing Nevada's first integrated health system to advance health and health care through world-class medical education, clinical research and patient care for our community and our state. Certain terms in this affiliation agreement have effective dates after June 30, 2021.

Basis of combination – The combined financial statements include the accounts of Renown Health and its subordinate corporations and subsidiaries. These combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). All significant intercompany balances and transactions have been eliminated.

Renown Health

Notes to Combined Financial Statements

(In Thousands)

Tax-exempt status – Renown Health and its members are organized as Nevada nonprofit entities and have been recognized by the Internal Revenue Service (“IRS”) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) or 501(c)(4), except for Businesses and its subsidiaries and Hometown Management and its subsidiaries. The entities recognized by the IRS as tax-exempt must file Returns of Organizations Exempt from Income Tax (Form 990) annually with the IRS. In addition, the tax-exempt entities are subject to income tax on net income derived from business activities that are unrelated to their tax-exempt purposes. In those cases, the tax-exempt entity would file an Exempt Organization Business Income Tax Return (Form 990T) with the IRS to report any unrelated business taxable income.

Renown Health believes it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the combined financial statements. Renown Health would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Use of estimates – The preparation of the combined financial statements in conformity with GAAP 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 combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less when purchased, excluding funds held in trust.

Marketable securities – Marketable securities, including equity and debt securities, are reported at fair value. Investment income including realized and unrealized gains and losses, interest, dividends and investment management fees is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from investment income and revenues in excess of expenses if the investments are considered available-for-sale debt securities. Renown Health uses the average cost method to compute realized gains and losses on securities sold.

Patient accounts receivable – Patient accounts receivable are uncollateralized patient and third-party payor obligations. Renown Health does not charge interest on past due accounts. Payments of patient accounts receivable are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

Inventories – Inventories are stated at the lower of average cost or net realizable value.

Funds held in trust – Funds held in trust include cash and cash equivalents and money market mutual funds measured at amortized cost which approximates fair value. Funds held in trust include amounts held by trustees under indenture agreements for debt service and amounts held by the counterparty to Renown Health’s interest rate swap contracts in accordance with the related collateral agreement.

Renown Health
Notes to Combined Financial Statements
(In Thousands)

Property and equipment, net – Property and equipment acquisitions are stated at cost, or in the case of donated items, at fair market value at the date of donation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from 15 to 40 years for buildings and improvements and 3 to 20 years for equipment. Equipment under finance lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the combined financial statements. Interest on amounts borrowed to finance the construction of assets is capitalized.

Routine maintenance and repairs are expensed as incurred. Major improvements that increase the estimated useful life of an asset are capitalized. Upon the sale or retirement of assets, recorded cost and related accumulated depreciation are removed from the accounts and any gain or loss on disposal is reflected in other expenses in the combined financial statements.

Gifts of long-lived assets such as land, buildings or equipment are reported as additions to net assets without donor restrictions and are excluded from revenues in excess of expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Property and equipment is tested for recoverability whenever events or changes in circumstances indicate that its carrying value may not be recoverable.

Unamortized debt issuance costs and bond premiums and discounts – Debt issuance costs and bond premiums and discounts are amortized to interest expense over the period the related obligation is outstanding using the effective interest method. Debt issuance costs and bond premiums and discounts are included within long-term debt on the combined balance sheets.

Goodwill – Goodwill generally arises from acquisition related activity. Goodwill represents the excess of the purchase price over the fair value of net assets acquired when accounted for using the acquisition method of accounting. Goodwill is tested for impairment at least annually, or sooner, whenever events or circumstances indicate that the asset may be impaired.

Investments in affiliated companies – Investments in affiliated companies in which Renown Health has the ability to exercise significant influence over operating and financial policies, but does not have control, are recorded under the equity method of accounting. Under the equity method, the initial investment is recorded at cost and adjusted annually to recognize Renown Health's share of earnings and losses of those entities, net of any additional investments or distributions. Renown Health's share of net earnings or losses of the entities is included in other revenues in the combined financial statements.

Premium deficiency reserves – Premium deficiency reserves and the related expense are recognized when it is probable that future health care expenses and maintenance costs under existing contracts will exceed anticipated future premiums over the contract period. Renown Health does not utilize anticipated investment income as a factor in the premium deficiency reserves calculation. The premium deficiency reserves are included in other current liabilities in the combined balance sheets. There were no premium deficiency reserves for the Hometown Health insurance business at June 30, 2021 and 2020.

Renown Health

Notes to Combined Financial Statements

(In Thousands)

Net assets – Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein have been classified and are reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net assets with donor restrictions – Net assets subject to donor (or grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Renown Health reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets.

Revenues in excess of expenses – Revenues in excess of expenses reflected in the accompanying combined statements of operations includes all changes in net assets without donor restrictions other than the net change in unrealized gains and losses on available-for-sale debt securities and the effective portion of interest rate swaps, changes in pension and other postretirement benefit obligations, transfers of assets to and from related parties for other than goods and services and contributions for property acquisitions released from restrictions (including assets acquired using contributions which were restricted by donors). Revenues in excess of expenses as reflected in the combined statements of operations is considered the performance indicator.

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

Performance obligations are determined based on the nature of the services provided by Renown Health. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Renown Health believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute services. Renown Health measures the performance obligation (associated with inpatient acute services) from admission into the hospitals to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and Renown Health does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, Renown Health has elected not to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Renown Health Notes to Combined Financial Statements (In Thousands)

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Renown Health's historical settlement activity (including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved). Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available) or as years are settled or are no longer subject to such audits, reviews and investigations.

To fulfill its mission of community service, Renown Health provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Renown Health does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenues.

Premium revenues – Premium revenues are recognized as income during the period in which health care coverage is provided. Premium revenues collected in advance are deferred as unearned premium revenues, which is included in other current liabilities in the combined balance sheets.

Donor gifts – Renown Health reports contributions restricted by donors as increases in net assets with donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined statements of operations and changes in net assets as net assets released from restrictions. Donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions are recognized at fair market value when cash, other assets, an unconditional promise to give or notification of a beneficial interest is received. Conditional promises to give are not recognized until conditions are substantially met.

Income taxes – Renown Health records income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws that are scheduled to be in effect when the differences are expected to reverse.

Contract costs – Renown Health expenses all incremental customer contract acquisition costs as they are incurred as the amortization period of the asset that Renown Health otherwise would have recognized is one year or less in duration.

Functional allocation of expenses – The costs of program and supporting services activities have been summarized on a functional basis in Note 12, which presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Renown Health

Notes to Combined Financial Statements

(In Thousands)

The combined financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to specific function are allocated based on revenues.

Health care expenses and medical claims payable – Renown Health maintains provider contracts with health care service providers, including hospitals, physician groups and pharmacies. These providers are paid primarily on a capitation or fee-for-service basis. These costs are recognized in the month in which services are provided and are included as part of health care expenses. Coordination of benefit recoveries are netted against these amounts.

Medical claims payable includes claims reported as of the combined balance sheet date and estimates (based on projections from historical data) of health care expenses incurred but not paid. Estimates are continually monitored and reviewed, and as settlements are made or estimates adjusted, differences are reflected in current operations. Losses are also recognized when it is probable that expected future health care expenses and maintenance costs related to the contract term of certain existing contracts will exceed anticipated future premiums from the related contracts. Due to the subjective nature of these reserves, there is a reasonable possibility that recorded estimates could differ from actual results in the future.

Derivative financial instruments – Derivatives are recorded on the combined balance sheets at fair value. Derivatives that are not hedges must be adjusted to fair value through revenues in excess of expenses. If the derivative qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in net assets or revenues in excess of expenses. The ineffective portion of a derivative's change in fair value is immediately recognized in revenues in excess of expenses. Amounts previously recognized as a change in net assets are recognized into revenues in excess of expenses consistent with the underlying derivative instrument. Interest rate swaps are described in more detail in Note 15.

Recently issued accounting standards – In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-13, *Fair Value Measurement – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)* ("ASU 2018-13"), to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by generally accepted accounting principles that are most important to users of financial statements through the removal, modification, and addition of disclosure requirements. The new standard was adopted by Renown Health for the fiscal year ended June 30, 2021. The adoption did not have a material impact on the combined financial statements.

Leases – Transactions give rise to leases when Renown Health receives substantially all the economic benefits from and has the ability to direct the use of specified property and equipment. Renown Health primarily has lessee activity that is classified as operating leases. Operating leases are included in operating lease right-of-use assets, operating lease current liabilities and operating lease liabilities in the combined balance sheets. Finance leases are included in property and equipment, net, other current liabilities and other liabilities in the combined balance sheets.

Right-of-use assets represent the right to use underlying assets for the lease term and lease liabilities represent obligations to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. When discount rates implicit in leases cannot be readily determined, Renown Health uses the applicable incremental borrowing rate at lease commencement to perform lease classification tests and to measure lease liabilities and right-of-use assets. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

Renown Health has agreements with lease and non-lease components (such as common area maintenance) and generally has elected to account for the lease and non-lease components as a single lease component. For certain leases, such as supply contracts with equipment leases, the lease and non-lease components are accounted for separately. Renown Health elects not to recognize right-of-use assets and lease liabilities that arise from short-term leases (i.e. leases with terms of 12 months or less).

Reclassifications – Certain reclassifications have been made in these combined financial statements to conform 2020 information to the 2021 presentation.

NOTE 2 – CHARITY CARE

Renown Health provides health care services at amounts less than established rates to patients who meet certain criteria under its charity care policy. As Renown Health does not pursue collection of these amounts, they are not reported as patient service revenues. The estimated cost of providing these services was \$9,686 and \$10,476 for the years ended June 30, 2021 and 2020, respectively, calculated by multiplying the ratio of cost to gross charges by the gross uncompensated charges associated with providing charity care to its patients. Renown Health does not receive funds to offset or subsidize charity care services.

NOTE 3 – PATIENT SERVICE AND OTHER REVENUES

Patient service revenues – Renown Health has agreements with third-party payors that provide for payments at amounts different from established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare – Inpatient and outpatient services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates per encounter. These rates vary according to a patient classification system based on clinical, diagnostic and other factors. Renown Health is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospitals and audits thereof by the Medicare fiscal intermediary. Renown Health's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2017.

Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospectively determined rates per length of stay and/or a fee schedule.

Other insurers – Renown Health also has entered into payment agreements with certain commercial insurance carriers, HMOs and PPOs for commercial, Medicaid and Medicare Advantage programs. The basis for payment to Renown Health under these agreements includes capitation, prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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Notes to Combined Financial Statements
(In Thousands)

Medicare, Medicaid and other insurers accounted for the following proportion of Renown Health's patient service revenues for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Medicare	\$ 289,804	\$ 261,579
Medicaid	107,173	103,107
PPO/HMO	530,906	485,723
Other	<u>70,026</u>	<u>70,941</u>
	<u>\$ 997,909</u>	<u>\$ 921,350</u>

The composition of patient service revenues based on Renown Health's lines of business for the year ended June 30 was as follows:

	<u>2021</u>	<u>2020</u>
Acute care services	\$ 888,755	\$ 820,059
Medical group services	109,110	101,242
Other	<u>44</u>	<u>49</u>
	<u>\$ 997,909</u>	<u>\$ 921,350</u>

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. Renown Health has potential settlements with third-party payors for retroactive adjustments that are considered variable consideration and included in the determination of the estimated transaction price for providing patient care. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Patient service revenues increased approximately \$1,512 and \$4,653 for the years ended June 30, 2021 and 2020, respectively, due to differences in estimated and actual cost report settlements and due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews and investigations.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Renown Health also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. Renown Health estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenues in the period of the change. The ability to estimate the collectability of uninsured and other self-pay patients is contingent on the patient's ability or willingness to pay for the services provided. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2021 and 2020 was not significant.

Renown Health
Notes to Combined Financial Statements
(In Thousands)

Other revenues – For the years ended June 30, other revenues consisted of the following:

	<u>2021</u>	<u>2020</u>
Other medical services	\$ 28,832	\$ 22,043
CARES Act Provider Relief Funds	24,126	28,734
Gain on investments in affiliated companies	13,108	7,780
Third-party administrative fees	5,439	6,579
Food and retail	4,659	6,294
Third-party rental income	1,702	3,563
Other	12,803	16,643
	<u>\$ 90,669</u>	<u>\$ 91,636</u>

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic.

To combat the financial effects of the virus, on March 27, 2020, Congress passed a \$2.3 trillion stimulus bill. Included in the bill was a provision for \$100 billion of financial support for hospitals. In April 2020, the Centers for Medicare and Medicaid Services (“CMS”) began distributing the \$100 billion in the form of grants to hospitals. Renown Health received \$24.1 million and \$28.7 million in grants for the years ended June 30, 2021 and 2020, respectively, and will have to submit reports documenting lost revenue and expenses incurred to support the grant funds, among other terms and conditions. Revenues related to these funds were presented in other revenue on the combined statements of operations. Separately, CMS initiated an Accelerated Payment Program to hospitals. The accelerated payments represent advance payments for services to be provided and were based on Renown Health’s historical Medicare volume. In April 2020, Renown Health received \$69.3 million in accelerated payments. CMS began recoupment of these accelerated payments in April 2021 and will continue to recoup the accelerated payments from billings for services rendered until they are fully repaid. Any accelerated payments still open after 29 months from receipt will be charged interest at 4%. As of June 30, 2021 and 2020, Renown Health had \$59.5 million and \$69.3 million, respectively, in accelerated payments, which were included in other current liabilities on the combined balance sheets.

NOTE 4 – MARKETABLE SECURITIES, FUNDS HELD IN TRUST AND OTHER FINANCIAL ASSETS

Marketable securities and fair value – Renown Health has determined the fair value of certain assets and liabilities in accordance with GAAP, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

Renown Health

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(In Thousands)

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels:

Level 1 – Inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity 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 related asset or liability.

Level 3 – Inputs are unobservable inputs related to the asset or liability.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment and takes into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of Renown Health's marketable securities are classified within Level 1 because they are comprised of securities with readily determinable fair values based on daily redemption values. Certain other securities, primarily consisting of debt securities, are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions and are classified within Level 2.

Net asset value ("NAV") per share, or its equivalent, such as member units or an ownership interest in partners' capital, is used to estimate the fair values of certain commingled funds, which do not have readily determinable fair values. Marketable securities that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

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Notes to Combined Financial Statements
(In Thousands)

The fair value of Renown Health's marketable securities measured on a recurring basis at June 30, 2021 consisted of the following:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
U.S. equity mutual funds	\$ 204,620	\$ -	\$ -	\$ 204,620
U.S. government securities	65,602	-	-	65,602
Foreign equity mutual funds	58,242	-	-	58,242
U.S. fixed income mutual funds	5,604	-	-	5,604
U.S. equity securities	4,090	-	-	4,090
U.S. federal agency securities	-	74,294	-	74,294
U.S. federal agency mortgage-backed securities	-	59,152	-	59,152
U.S. corporate fixed income securities	-	53,753	-	53,753
U.S. corporate fixed income asset-backed securities	-	14,738	-	14,738
U.S. municipal bonds	-	877	-	877
	<u>338,158</u>	<u>202,814</u>	<u>-</u>	<u>540,972</u>
U.S. fixed income commingled funds*	-	-	-	99,067
Foreign fixed income commingled funds*	-	-	-	81,047
Foreign equity commingled funds*	-	-	-	44,010
	<u>-</u>	<u>-</u>	<u>-</u>	<u>224,124</u>
	<u>\$ 338,158</u>	<u>\$ 202,814</u>	<u>\$ -</u>	<u>\$ 765,096</u>

* The amounts of marketable securities measured at NAV presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined balance sheets.

Renown Health

Notes to Combined Financial Statements

(In Thousands)

The fair value of Renown Health's marketable securities measured on a recurring basis at June 30, 2020 consisted of the following:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
U.S. equity mutual funds	\$ 140,884	\$ -	\$ -	\$ 140,884
U.S. government securities	91,764	-	-	91,764
Foreign equity mutual funds	43,582	-	-	43,582
U.S. fixed income mutual funds	5,044	-	-	5,044
U.S. equity securities	3,330	-	-	3,330
U.S. federal agency securities	-	86,722	-	86,722
U.S. corporate fixed income securities	-	84,682	-	84,682
U.S. federal agency mortgage-backed securities	-	61,382	-	61,382
U.S. corporate fixed income asset-backed securities	-	17,992	-	17,992
U.S. municipal bonds	-	1,316	-	1,316
	<u>284,604</u>	<u>252,094</u>	<u>-</u>	<u>536,698</u>
U.S. fixed income commingled funds*	-	-	-	97,847
Foreign fixed income commingled funds*	-	-	-	79,876
Foreign equity commingled funds*	-	-	-	32,841
	<u>-</u>	<u>-</u>	<u>-</u>	<u>210,564</u>
	<u>\$ 284,604</u>	<u>\$ 252,094</u>	<u>\$ -</u>	<u>\$ 747,262</u>

* The amounts of marketable securities measured at NAV presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined balance sheets.

Commingled and other funds are reported at fair value as reported by the fund managers based on discounted cash flows, estimated market values and other unobservable inputs. Each of the commingled funds report fair value using a calculated NAV. There are no redemption limitations, except as noted below, or unfunded commitments at June 30, 2021 and 2020.

Commingled Fund	Redemption	Redemption Notice Period	Redemption Availability
U.S. fixed income commingled funds	Any business day of each month	2 business days prior to trade date	Within 2 business days after trade date (subject to liquidity limitations)
Foreign fixed income commingled funds	First business day of each month	15th of the month	80% available within 5 business days and remaining within 10 business days
Foreign equity commingled funds	First business day of each month	15th of the month	80% available within 5 business days and remaining within 10 business days

Renown Health
Notes to Combined Financial Statements
(In Thousands)

Funds held in trust – The composition of funds held in trust at June 30 was as follows:

	<u>2021</u>	<u>2020</u>
Funds held in trust for		
Debt service		
Money market mutual funds	\$ 183,685	\$ 3,121
Interest rate swap collateral		
Cash and cash equivalents	-	18,330
	<u>\$ 183,685</u>	<u>\$ 21,451</u>

Liquidity and availability – As of June 30, 2021 and 2020, Renown Health had working capital of \$1,169,139 and \$942,558, respectively. Working capital measures an organization’s liquidity, efficiency and overall health. It is measured by taking current assets less current liabilities.

Renown Health regularly monitors the availability of resources required to meet operating and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a one-year period, Renown Health considers all expenditures related to its ongoing activities of patient care and insurance services, as well as the conduct of those services undertaken to support those activities, to be general expenditures.

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

	<u>2021</u>	<u>2020</u>
Financial assets at June 30:		
Cash and cash equivalents	\$ 390,743	\$ 205,763
Marketable securities	765,096	747,262
Patient accounts receivable	160,790	131,084
Other receivables	37,791	37,262
Funds held in trust	183,685	21,451
Other assets	3,418	4,237
	<u>1,541,523</u>	<u>1,147,059</u>
Less amounts not available to be used within one year:		
Promises to give with liquidity horizons greater than one year	(241)	(1,191)
Funds held in trust not available to be used within one year	(183,685)	(21,451)
Board-designated endowment and related accumulated unrealized investment gains	(1,779)	(1,491)
Endowments and related accumulated unrealized investment gains	(1,262)	(776)
Other financial assets not available to be used within one year	(2,569)	(2,533)
	<u> </u>	<u> </u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,351,987</u>	<u>\$ 1,119,617</u>

In addition to financial assets available to meet general expenditures over the next year, Renown Health anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the combined statements of cash flows, which identify sources and uses of Renown Health’s cash and cash equivalents and show positive cash generated by operating activities for the fiscal years 2021 and 2020.

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Notes to Combined Financial Statements
(In Thousands)

Renown Health has certain donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above. Renown Health has other assets limited to use for donor-restricted purposes, board-restricted purposes, debt service and interest rate swap collateral. These assets, which are described in more detail in this note and Note 9, are not available for general expenditure within the next year and are not reflected in the amounts above.

As part of Renown Health's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds in addition to being held in checking accounts. Additionally, as of June 30, 2021 and 2020, management has asserted that Renown Health was in compliance with bond covenants.

NOTE 5 – PROPERTY AND EQUIPMENT, NET

A summary of property and equipment, net at June 30 was as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 91,581	\$ 91,727
Buildings and improvements	763,948	729,269
Equipment	505,065	498,638
Construction in progress and assets not yet placed in service	<u>47,971</u>	<u>51,180</u>
	1,408,565	1,370,814
Less: allowance for depreciation and amortization	<u>(795,689)</u>	<u>(770,091)</u>
Property and equipment, net	<u>\$ 612,876</u>	<u>\$ 600,723</u>

During fiscal year 2020, Renown Health entered into agreements for the sale of certain land and buildings. The land and buildings, which were expected to be sold within twelve months, were classified as held for sale and presented separately in the combined balance sheets. On classification as held for sale, a loss of \$6,904 was recognized in other expenses on the combined statements of operations. During fiscal year 2021, Renown Health finalized the sale of the land and building held for sale as of June 30, 2020.

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Notes to Combined Financial Statements
(In Thousands)

NOTE 6 – INVESTMENTS IN AFFILIATED COMPANIES

Investments of \$83,235 and \$65,918 in various related health care ventures are recorded under the equity method, with Renown Health’s 50% investment in Carson Valley Medical Center (“CVMC”) accounting for 52% and 51% and Renown Health’s 36% investment in Routt Dialysis LLC accounting for 33% and 42% of the total investments in affiliated companies for the years ended June 30, 2021 and 2020, respectively. The net gain on investments in affiliated companies of \$13,108 and \$7,780 for the years ended June 30, 2021 and 2020, respectively, was included in other revenues on the combined statements of operations. Other changes in investments in affiliated companies for the year end June 30 were as follows:

	<u>2021</u>	<u>2020</u>
Purchase of investments in affiliated companies	\$ 7,972	\$ -
Distributions received from investments in affiliated companies	\$ 4,463	\$ 3,139
Other changes in investments in affiliated companies	\$ 700	\$ -

The total assets and total liabilities as of June 30 and revenues in excess of expenses for the year ended June 30 for the affiliated companies were as follows:

	<u>2021</u>	<u>2020</u>
Assets:		
CVMC	\$ 109,118	\$ 96,955
Routt Dialysis LLC	18,519	19,235
All other	<u>22,126</u>	<u>17,708</u>
Total assets	<u>\$ 149,763</u>	<u>\$ 133,898</u>
Liabilities:		
CVMC	\$ 23,079	\$ 29,054
Routt Dialysis LLC	9,621	9,837
All other	<u>24,006</u>	<u>20,007</u>
Total liabilities	<u>\$ 56,706</u>	<u>\$ 58,898</u>
Revenues in excess of expenses:		
CVMC	\$ 16,760	\$ 7,486
Routt Dialysis LLC	8,588	7,308
All other	<u>2,512</u>	<u>1,795</u>
Revenues in excess of expenses	<u>\$ 27,860</u>	<u>\$ 16,589</u>

NOTE 7 – LEASES

Renown Health leases buildings, office space and equipment under noncancelable long-term agreements. The leases expire at various times and many have certain renewal options and lease payment escalation provisions. For those contracts where renewal options are reasonably certain to be exercised, Renown Health recognizes renewal option periods in the determination of right-of-use assets and lease liabilities.

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Notes to Combined Financial Statements
(In Thousands)

At June 30, 2021 and 2020, lease assets and lease liabilities were as follows:

		<u>2021</u>	<u>2020</u>
Assets:			
Operating	Operating lease right-of-use assets	\$ 19,862	\$ 23,698
Finance	Property and equipment, net	<u>10,464</u>	<u>6,913</u>
		<u>\$ 30,326</u>	<u>\$ 30,611</u>
Liabilities:			
Current:			
Operating	Operating lease current liabilities	\$ 4,899	\$ 5,244
Finance	Other current liabilities	430	314
Noncurrent:			
Operating	Operating lease liabilities	15,700	18,701
Finance	Other liabilities	<u>11,761</u>	<u>7,922</u>
		<u>\$ 32,790</u>	<u>\$ 32,181</u>

For the year ended June 30, 2021 and 2020, total lease costs incurred by lease type and type of payment were as follows:

	<u>2021</u>	<u>2020</u>
Operating lease cost	\$ 6,305	\$ 6,409
Finance lease cost:		
Amortization of lease assets	693	246
Interest on lease liabilities	436	157
Short-term lease cost	2,083	1,505
Variable lease cost	<u>1,794</u>	<u>1,566</u>
	<u>\$ 11,311</u>	<u>\$ 9,883</u>

For the year ended June 30, 2021 and 2020, other supplemental quantitative disclosures were as follows:

	<u>2021</u>	<u>2020</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows used for operating leases	\$ (6,152)	\$ (6,156)
Operating cash flows used for finance leases	\$ (377)	\$ (34)
Net additions to right-of-use assets obtained from operating leases	\$ 1,635	\$ 2,287
Net additions to right-of-use assets obtained from finance leases	\$ 4,244	\$ 7,159
Weighted-average remaining lease term (years):		
Operating leases	4.41	4.93
Finance leases	17.64	17.42
Weighted-average discount rate:		
Operating leases	3.74%	3.81%
Finance leases	3.60%	3.81%

Renown Health
Notes to Combined Financial Statements
(In Thousands)

At June 30, 2021, the undiscounted future lease payments under noncancelable operating leases and finance leases, along with a reconciliation of the undiscounted cash flows to operating and finance lease liabilities were as follows:

<u>Year Ending June 30,</u>	<u>Operating Leases</u>	<u>Finance Leases</u>	<u>Total</u>
2022	\$ 5,584	\$ 861	\$ 6,445
2023	5,327	879	6,206
2024	4,635	898	5,533
2025	3,867	917	4,784
2026	1,901	936	2,837
Thereafter	<u>1,092</u>	<u>12,466</u>	<u>13,558</u>
Total lease payments	22,406	16,957	39,363
Less: amount representing interest	<u>(1,807)</u>	<u>(4,766)</u>	<u>(6,573)</u>
	<u>\$ 20,599</u>	<u>\$ 12,191</u>	<u>\$ 32,790</u>

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(In Thousands)

NOTE 8 – LONG-TERM DEBT

Long-term obligations as of June 30 consisted of the following:

	<u>2021</u>	<u>2020</u>
Public Finance Authority, Hospital Revenue Bonds (Renown Regional Medical Center Project):		
Series 2020A, interest ranging from 3.00% to 5.00% payable semiannually; annual principal installments ranging from \$4,120 in 2022 to \$22,635 in 2045	\$ 310,635	\$ -
Unamortized debt issuance costs and unamortized bond premium	<u>40,476</u>	<u>-</u>
	<u>351,111</u>	<u>-</u>
Public Finance Authority, Taxable Hospital Revenue Bonds (Renown Regional Medical Center Project):		
Series 2020B, interest ranging from 3.09% to 3.34% payable semiannually; annual principal installments ranging from \$14,605 in 2045 to \$43,755 in 2050	219,975	-
Unamortized debt issuance costs	<u>(4,771)</u>	<u>-</u>
	<u>215,204</u>	<u>-</u>
Public Finance Authority, Nevada Hospital Revenue Refunding Bonds (Renown Regional Medical Center Project):		
Series 2016A, interest ranging from 3.00% to 5.00% payable monthly; annual principal installments ranging from \$4,125 in 2022 to \$15,845 in 2040	126,900	130,730
Unamortized debt issuance costs and unamortized bond premium	<u>14,256</u>	<u>23,807</u>
	<u>141,156</u>	<u>154,537</u>
Public Finance Authority, Nevada Hospital Revenue Refunding Bonds (Renown Regional Medical Center Project):		
Series 2015A, interest ranging from 4.00% to 5.00% payable monthly; annual principal installments ranging from \$5,185 in 2022 to \$7,330 in 2041	126,300	131,230
Unamortized debt issuance costs and unamortized bond premium	<u>1,216</u>	<u>5,712</u>
	<u>127,516</u>	<u>136,942</u>
City of Reno, Nevada Hospital Revenue Bonds (Renown Regional Medical Center Project):		
Series 2009A&B, variable interest; settled in October 2020		60,120
Unamortized debt issuance costs	<u>-</u>	<u>(1,309)</u>
	<u>-</u>	<u>58,811</u>
Series 2008A&B, variable interest; settled in October 2020	-	72,600
Unamortized debt issuance costs	<u>-</u>	<u>(1,087)</u>
	<u>-</u>	<u>71,513</u>

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Notes to Combined Financial Statements
(In Thousands)

	2021	2020
City of Reno, Nevada Hospital Revenue Bonds (Renown Health Project):		
Series 2006 remaining unamortized debt issuance costs	-	(739)
Series 2005A&B, interest ranging from 5.00% to 6.25% payable semi-annually; settled in October 2020	-	7,095
Unamortized debt issuance costs	-	(367)
	-	6,728
City of Reno, Nevada Hospital Revenue Bonds (Renown Regional Medical Center Project):		
Series 2004A, interest at 5.50% payable semi-annually; settled in October 2020	-	1,365
Unamortized debt issuance costs and unamortized bond discount	-	(131)
	-	1,234
Series 2004C (converted 2010), interest ranging from 5.00% to 5.38% payable semi-annually; settled in October 2020	-	9,930
Unamortized debt issuance costs and unamortized bond premium	-	(523)
	-	9,407
Series 2004C (converted 2008), interest ranging from 4.88% to 5.50% payable semi-annually; settled in October 2020	-	4,205
Unamortized debt issuance costs and unamortized bond premium	-	(260)
	-	3,945
Guaranteed Insured Notes:		
Series 1995, interest at 7.58% payable semi-annually; settled in October 2020	-	15,200
Unamortized debt issuance costs	-	(254)
	-	14,946
	834,987	457,324
Less: current maturities	(19,719)	(14,857)
	\$ 815,268	\$ 442,467

In October 2020, Renown Health received proceeds in connection with the issuance of \$219,975 par value taxable fixed rate debt ("Series 2020B"), as well as proceeds from the issuance of \$310,635 of par value tax-exempt fixed rate debt ("Series 2020A"). The proceeds from the issuance of the Series 2020 Bonds were primarily used to redeem existing debt of \$155,315, to terminate outstanding interest rate swap agreements, to fund future capital projects and for general corporate purposes. The redemption of existing debt was treated as an extinguishment and a loss of \$7,379 was recorded in other gains and losses in the combined statements of operations for the year ended June 30, 2021. Total proceeds from issuance, which includes \$43,989 of bond premium and is net of the payment of \$5,568 of issuance costs, were \$569,031.

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(In Thousands)

The Series 2020A&B, 2016A, 2015A, 2009A&B, 2008A&B, 2005A&B and 2004A&C Hospital Revenue Bonds have been issued under a Master Trust Indenture (“MTI”) that secures the indebtedness by a pledge of the gross revenues of the following operating subsidiaries of Renown Health: Regional, South Meadows (including Rehab) and Transitional Care (the “Obligated Group”). Under the MTI, Renown Health is required to comply with certain restrictive financial and other covenants. As of June 30, 2021 and 2020, management has asserted that Renown Health was in compliance with all debt covenants.

The Series 2008A&B and 2009A&B Hospital Revenue Bonds are variable rate demand bonds that are guaranteed by liquidity facilities (principally letters of credit). Should the liquidity facilities terminate or fail to renew, the bonds are considered due on demand. Renown Health is able to leverage the payment terms provided in the liquidity facilities, including extended payment terms upon draw or termination. The maturities of these bonds are classified based on the stated maturities of the bonds or the termination provisions of the liquidity facilities, as appropriate. At June 30, 2021 and 2020, approximately \$0 and \$1,900, respectively, of Renown Health’s variable rate demand bonds were classified within current maturities of long-term debt in the combined balance sheets.

At June 30, 2021, aggregate principal maturities of long-term obligations, excluding unamortized bond discounts and premiums and debt issuance costs, were as follows:

<u>Year Ending June 30,</u>	
2022	\$ 13,430
2023	14,105
2024	14,805
2025	15,550
2026	16,325
Thereafter	<u>709,595</u>
Total	<u>\$ 783,810</u>

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Notes to Combined Financial Statements
(In Thousands)

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2021	2020
Subject to expenditure for specified purpose:		
Children's services	\$ 5,145	\$ 7,834
Behavioral health center	3,978	4,455
Education	626	662
South Meadows	469	36
Research	391	382
Healing garden/arts	364	1,018
Hospice care	33	562
Other programs	1,997	2,573
	13,003	17,522
Funds of perpetual duration, subject to spending policy and appropriations, the distributions from which are restricted by donors as follows:		
Healing garden/arts	650	560
Children's services	291	-
Other programs	321	216
	1,262	776
	\$ 14,265	\$ 18,298

In 2021 and 2020, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes in the amounts of \$36,838 and \$36,123, respectively. Net assets released from donor restrictions during 2021 and 2020 includes \$24,126 and \$28,734, respectively, related to Coronavirus Aid, Relief, and Economic Security ("CARES") Act Provider Relief Funding, which was both received and released in the same fiscal year. These amounts are included in net assets released from restrictions and other revenues in the combined financial statements.

NOTE 10 – RETIREMENT PLANS

Contributory defined benefit plan – Renown Health had a contributory defined benefit plan (the "Retirement Plan") available to employees who elected to participate as of November 17, 1985. Employees who elected to participate were required to contribute 2.5% of their annual earnings. Normal retirement benefits under the Retirement Plan were based on the three highest years of compensation and the employee's years of service. Benefits were reduced for specified benefits received under the Nevada Public Employees' Retirement System. Renown Health's total retirement benefit expense was not material.

On July 25, 2018, the Board of Directors of Renown Health elected to freeze the accrued benefits of each participant in the Retirement Plan effective October 1, 2018 and approved a resolution to terminate the plan. During fiscal year 2020, the plan was terminated, and all plan liabilities were settled through a combination of lump sum distributions to plan participants and through annuity contracts purchased through a third-party insurance company. As a result of the plan termination and settlement, unrecognized losses of \$2,633, which were previously recorded in net assets without donor restrictions, were recognized in other gains and losses in the combined statements of operations.

Renown Health

Notes to Combined Financial Statements

(In Thousands)

Defined contribution plan – Renown Health has adopted a defined contribution 401(k) plan (the “401(k) Plan”), which covers substantially all employees and has a discretionary matching contribution. For fiscal years 2021 and 2020, Renown Health matched 100% of the first 3% of the employee’s contribution and 50% of the next 2% of the employee’s contribution, respectively. Participants vest in employer matching contributions at the rate of 25% per year after two years of service and are fully vested after five years. The total cost of the 401(k) Plan was \$14,177 and \$13,326 for the years ended June 30, 2021 and 2020, respectively.

NOTE 11 – CONCENTRATIONS OF CREDIT RISK

Renown Health grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of net patient accounts receivable from third-party payors and patients at June 30 was as follows:

	<u>2021</u>	<u>2020</u>
Medicare	20%	19%
Medicaid	9%	10%
PPO/HMO	46%	42%
Other	<u>25%</u>	<u>29%</u>
	<u>100%</u>	<u>100%</u>

Deposit concentration risk is managed by placing cash, money market accounts and investments with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, Renown Health has not experienced losses in any of these accounts. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policies and guidelines are prudent for the long-term welfare of Renown Health.

NOTE 12 – FUNCTIONAL EXPENSES

Renown Health provides health care services to residents within its geographic location. Expenses related to providing these services by functional class for the year ended June 30, 2021 were as follows:

	<u>Patient Health</u>	<u>Insurance</u>	<u>Other</u>	<u>Support</u>	<u>Total</u>
Salaries, wages and benefits	\$ 591,441	\$ 20,430	\$ 1,228	\$ 76,315	\$ 689,414
Supplies	233,401	296	768	4,227	238,692
Professional fees	32,480	16	-	71	32,567
Health care expenses	-	229,277	-	-	229,277
Purchased services	52,072	20,092	1,462	69,499	143,125
Repairs and maintenance	9,319	26	434	519	10,298
Utilities and telephone	5,218	154	491	4,013	9,876
Insurance	1,686	20	-	1,800	3,506
Depreciation and amortization	43,840	1,032	2,602	16,798	64,272
Interest	9,018	52	333	4	9,407
Rental and lease	7,454	140	731	1,857	10,182
Other	18,501	18,419	1,432	12,217	50,569
	<u>\$ 1,004,430</u>	<u>\$ 289,954</u>	<u>\$ 9,481</u>	<u>\$ 187,320</u>	<u>\$ 1,491,185</u>

Renown Health
Notes to Combined Financial Statements
(In Thousands)

Expenses related to providing these services by functional class for the year ended June 30, 2020 were as follows:

	<u>Patient Health</u>	<u>Insurance</u>	<u>Other</u>	<u>Support</u>	<u>Total</u>
Salaries, wages and benefits	\$ 549,475	\$ 20,740	\$ 1,879	\$ 76,410	\$ 648,504
Supplies	208,222	380	900	3,479	212,981
Professional fees	30,927	1	-	67	30,995
Health care expenses	-	219,471	-	2	219,473
Purchased services	43,261	18,699	798	62,894	125,652
Repairs and maintenance	6,480	37	320	1,009	7,846
Utilities and telephone	5,626	159	536	3,855	10,176
Insurance	1,464	25	-	1,598	3,087
Depreciation and amortization	38,311	1,747	2,634	16,594	59,286
Interest	18,158	42	1,348	122	19,670
Rental and lease	6,773	174	689	1,847	9,483
Other	19,927	19,821	1,543	20,002	61,293
	<u>\$ 928,624</u>	<u>\$ 281,296</u>	<u>\$ 10,647</u>	<u>\$ 187,879</u>	<u>\$ 1,408,446</u>

NOTE 13 – INCOME TAXES

The taxable corporations of Renown Health file tax returns as required under current tax regulations. The income tax provision for the years ended June 30 was as follows:

	<u>2021</u>	<u>2020</u>
Current tax (benefit) expense	\$ (769)	\$ 905
Deferred tax (benefit) expense	(862)	800
	<u>\$ (1,631)</u>	<u>\$ 1,705</u>

Reported income tax provision differs from the federal statutory income tax rate primarily due to changes in the valuation allowance, permanent differences, and true ups.

Renown Health

Notes to Combined Financial Statements

(In Thousands)

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amount used for income tax purposes. The significant components of Renown Health's taxable corporations' deferred taxes as of June 30 were as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Net operating loss and other carryovers	\$ 62,863	\$ 52,593
Lease liabilities	2,981	4,204
Allowance for uncollectible accounts	1,393	1,512
Accrued vacation and incentives	1,118	1,791
Depreciation and amortization	231	1,162
Other	62	-
	<u>68,648</u>	<u>61,262</u>
Deferred tax liabilities:		
Deferred partnership gains	(6,056)	(5,796)
Right-of-use assets	(2,950)	(4,184)
Depreciation and amortization	(2,268)	(1,360)
Other	(31)	(15)
	<u>(11,305)</u>	<u>(11,355)</u>
Less: valuation allowance	<u>(62,829)</u>	<u>(56,255)</u>
Total net deferred tax liability	<u>\$ (5,486)</u>	<u>\$ (6,348)</u>

GAAP requires that the tax benefit of net operating losses, temporary differences and credit carryforwards be recorded as an asset to the extent that management assesses that realization is "more likely than not." Realization of the future tax benefits is dependent on Renown Health's ability to generate sufficient taxable income within the carryforward period. Because of Renown Health's recent history of operating losses, management believes that recognition of the deferred tax assets arising from the above-mentioned future tax benefits is currently not likely to be realized and, accordingly, has provided a valuation allowance. A full valuation allowance has been established for Hometown Management to reflect the uncertainty of generating future taxable income necessary to realize the tax loss carryforwards and other deferred tax assets. The valuation allowance increased by \$6,574 and \$5,126 during years ended June 30, 2021 and 2020, respectively.

At June 30, 2021, Hometown Management had federal operating loss carryforwards of approximately \$292,041, which may be used to offset future taxable income. The federal carryforwards will begin to expire in 2021.

At June 30, 2021, Businesses had federal operating loss carryforwards of approximately \$0.

At June 30, 2021, Hometown Providers had federal operating loss carryforwards of approximately \$6,261, which may be used to offset future taxable income. The federal carryforwards will not expire. Hometown Providers' ability to utilize its carryforwards is dependent on generating sufficient taxable income.

Renown Health
Notes to Combined Financial Statements
(In Thousands)

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits net operating loss (“NOL”) carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. Renown Health has evaluated the impact of the CARES Act and determined that none of the changes would result in a material income tax benefit.

On December 27, 2020, the Consolidated Appropriations Act of 2021 was signed into law and extends several provisions of the CARES Act. As of June 30, 2021, Renown Health has determined that neither this Consolidated Appropriations Act nor changes to income tax laws or regulations in other jurisdictions have a significant impact on Renown Health’s taxable corporations’ effective tax rates.

Renown Health adheres to requirements for uncertain tax positions, which had no financial statement impact to Renown Health upon adoption due to the existing valuation allowance on deferred tax assets. Renown Health files income tax returns in the U.S. federal jurisdiction and various states. As of June 30, 2021 and 2020, there were no accrued interest or penalties recorded in the financial statements.

NOTE 14 – REINSURANCE AGREEMENTS

Renown Health purchases reinsurance for losses on certain inpatient hospital, physician and pharmacy claims from a reinsurance company. Under the terms of this agreement for the year ended June 30, 2021, the reinsurance company reimburses Renown Health up to a maximum amount in excess of a \$500 deductible for fully-insured commercial HMO members and a \$400 deductible for fully-insured commercial PPO and Medicare members, as accumulated on an incurred basis (as defined in the reinsurance agreement) subject to certain limits and coinsurance payments. Under the terms of this agreement for the year ended June 30, 2020, the reinsurance company reimburses Renown Health up to a maximum amount in excess of a \$500 deductible for fully-insured commercial HMO members, \$400 deductible for fully-insured commercial PPO members, and \$300 deductible for Medicare members, as accumulated on an incurred basis (as defined in the reinsurance agreement) subject to certain limits and coinsurance payments.

NOTE 15 – INTEREST RATE SWAPS

As of June 30, 2020, Renown Health had five interest rate swap agreements as follows:

	Notional Amount		
	Original	2020	Interest Paid
Series 2004C	\$ 15,325	\$ 5,100	3.697%
Series 2004C	44,000	41,913	3.897%
Series 2009	15,325	5,100	3.697%
Series 2009	44,000	41,913	3.897%
Series 2008	80,000	67,137	3.788%

For each of the interest rate swaps, Renown Health received a floating rate of 60% of 1-month LIBOR, plus 36 basis points, in return for the fixed rates outlined above. The swaps originally expired between 2031 and 2041.

Renown Health

Notes to Combined Financial Statements

(In Thousands)

Series 2004C – Renown Health executed the Series 2004C swap contracts in June 2004, designated them to the Series 2004C Hospital Revenue Bonds and achieved hedge treatment. In September 2009, Renown Health determined the two Series 2004C swaps no longer qualified for hedge treatment. Prospectively, all changes in fair value of the Series 2004C swaps are included in the performance indicator. In March 2010, Renown Health converted the Series 2004C Hospital Revenue Bonds from auction rate mode to fixed rate mode.

Series 2009 (formerly Series 2004B) – Renown Health executed the Series 2004B swap contracts in June 2004, designated them to the Series 2004B Hospital Revenue Bonds and achieved hedge treatment. In January 2009, the Series 2004B Hospital Revenue Bonds were extinguished and refunded with the Series 2009A&B Hospital Revenue Bonds. The Series 2004B swap, with an original notional amount of \$15,325, was re-designated to the Series 2009A&B Hospital Revenue Bonds and qualified for hedge treatment at the date of refunding. The Series 2004B swap, with an original notional amount of \$44,000, qualified for hedge treatment in October 2010. At September 30, 2016, the Series 2009 (formerly Series 2004B) swaps no longer qualified for hedge treatment. Prospectively, all changes in fair value of the Series 2009 swaps are included in the performance indicator.

Series 2008 (formerly Series 2006) – Renown Health executed the Series 2006 swap contract in April 2006, designated it to the Series 2006 Hospital Revenue Bonds and achieved hedge treatment. In June 2008, the Series 2006 Hospital Revenue Bonds were extinguished and refunded with the Series 2008 Hospital Revenue Bonds; and therefore, the Series 2006 swap no longer qualified for hedge treatment. In August 2008, Renown Health re-designated the Series 2006 swap to the Series 2008 Hospital Revenue Bonds and achieved hedge treatment. At June 30, 2016, the Series 2008 (formerly Series 2006) swap no longer qualified for hedge treatment. Prospectively, all changes in fair value of the Series 2008 swap are included in the performance indicator.

In September 2020, Renown Health initiated the early termination of its outstanding interest rate swap agreements through settlement payments of \$64,657. The previously recognized effective portion of the change in fair value of the swaps was included as a component of net assets without donor restrictions. As part of the transaction, the associated net unrealized loss position of \$28,725 through the date of the termination of the interest rate swaps was recognized immediately in other gains and losses in the combined statements of operations due to the probability associated with the forecasted borrowing transactions no longer occurring. At June 30, 2020, the cumulative effective portion included in net assets without donor restrictions was a net unrealized loss of \$29,189. The change in fair value of the swaps, included in other gains and losses in the combined statements of operations, was a loss of \$1,719 through the date of the termination of the interest rate swaps for the year ended June 30, 2021 and \$19,482 for the year ended June 30, 2020. The unrealized loss amortized from net assets without donor restrictions to revenues in excess of expenses was \$464 through the date of the termination of the interest rate swaps for the year ended June 30, 2021 and \$1,850 for the year ended June 30, 2020. The fair market value of the swaps is determined using quoted market prices based on observable interest rates and yield curves (Level 2 inputs). The fair value of the swaps was in a liability position of \$63,402 at June 30, 2020 and was included in noncurrent liabilities.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Self-insurance plans – Renown Health is self-insured for health insurance, workers' compensation, vision and dental care. The claims under these plans continue to be accrued as the incidents that give rise to them occur. Unpaid claim accruals are based on the estimated ultimate cost of the claims, including claim administration expenses, in accordance with Renown Health's past experience. Renown Health has entered into a reinsurance agreement with insurance companies to limit its losses on claims for health insurance and workers' compensation. Reinsurance receivables of \$1,627 and \$1,760 at June 30, 2021 and 2020, respectively, were included in other receivables in the combined balance sheets. Reserves for self-insured plans of \$10,339 and \$10,673 as of June 30, 2021 and 2020, respectively, were included accrued payroll and related liabilities in the combined balance sheets.

Professional and general liability insurance – Renown Health is self-insured for professional liability claims up to \$4,000 per occurrence and maintains professional liability insurance coverage on a claims-made basis for all claims in excess of \$4,000 per occurrence. In addition, Renown Health is self-insured for general liability claims up to \$1,000 per occurrence and maintains general liability insurance coverage on a claims-made basis for all claims in excess of \$1,000 per occurrence.

Reserves for reported professional and general liability claims and incurred but not reported claims are based on actuarial studies. Management is not aware of potential professional and general liability claims whose settlement, if any, would be in excess of amounts provided for or would otherwise have a material adverse effect on Renown Health's combined financial position. Renown Health has not significantly changed its process for calculating the reserve for reported and incurred but not reported claims from June 30, 2021 and 2020. Reserves for reported and incurred but not reported claims of \$7,478 and \$5,986 at June 30, 2021 and 2020, respectively, were included in other liabilities in the combined balance sheets. As of June 30, 2021 and 2020, receivables of \$0 and \$500, respectively, for expected insurance recoveries related to professional liability claims were recorded in other receivables on the combined balance sheets.

Litigation, claims, and disputes – Renown Health is subject to the usual contingencies in the normal course of operations relating to the performance of its task under its various services it offers. In the opinion of management and after consultation with legal counsel, the ultimate settlement of litigation, claims and disputes in process will not be material to the combined financial position of Renown Health. However, there can be no guarantee that such will be the case.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Renown Health

Notes to Combined Financial Statements

(In Thousands)

2013 Stark Disclosure – Through its compliance program, Renown Health identified an arrangement which raised potential issues with respect to compliance with Stark (42 U.S.C. §1395nn) and Anti-Kickback Statutes (42 U.S.C. §1320a-7b(b)) requirements. Renown Health self-disclosed this issue to the Office of the Inspector General (“OIG”) on June 27, 2013 utilizing the Self-Referral Disclosure Protocol (“SRDP”). The OIG retained the disclosure related to a lease and service agreement and referred the physician contract agreements to the CMS, Division of Technical Payment Policy. The OIG concluded its review of the lease and service agreement disclosure and reached a settlement with Renown Health on December 21, 2015. Renown Health self-disclosed the physician contract agreement issue to CMS on August 2, 2013 and January 7, 2014. As of June 30, 2021 and 2020, CMS has not concluded its respective review of the physician’s contract agreement. Management believes it has adequately provided for the most likely outcome from the self-disclosure based on the information available at the time. Management intends to settle any such liability; accordingly, an accrual of \$206 was recorded in the combined balance sheets as of both June 30, 2021 and 2020.

2018 Stark Disclosure – On May 22, 2017, a qui tam complaint was filed in the U.S. District Court for the District of Nevada. Renown Health became aware of the complaint on or about February 21, 2018 after the complaint was unsealed and appeared on a public docket. The complaint raised potential issues with respect to the requirements of Stark Law and Anti-Kickback Statute. The allegations were related to the possible creation of inappropriate compensation arrangements with employed physicians during 2011 and 2012. However, the complaint was never served on any of the named defendants; as a result, the court dismissed the complaint, without prejudice, on August 17, 2018, due to lack of timely service. Despite the dismissal, Renown Health nonetheless conducted its own investigation into the allegations contained in the complaint. Although there is reasonable basis to conclude no violations occurred, out of an abundance of caution, Renown Health elected to disclose the arrangement to CMS and submit it to the jurisdiction of the SRDP on October 19, 2018. CMS has not concluded its respective review of the disclosure; however, any settlement monies will be the responsibility of Renown Health. Accordingly, an accrual of \$372 was recorded in the combined balance sheets as of both June 30, 2021 and 2020.

Collective Bargaining Agreement – As of June 30, 2021 and 2020, approximately 17% and 19%, respectively, of Renown Health’s labor force was represented by a collective bargaining agreement. The most recent labor agreement expires on June 30, 2023.

Purchase commitments – During 2018, Renown Health entered into an agreement with a vendor to purchase a minimum amount of laboratory supplies over eight years. In connection with the agreement, Renown Health also acquired certain equipment. As of June 30, 2021 and 2020, the remaining commitment totaled \$10,572 and \$12,200, respectively.

During 2019, Renown Health entered into an agreement with a vendor to purchase monthly software subscription services for three years. As of June 30, 2021 and 2020, the remaining commitment was \$3,120 and \$6,239, respectively.

During 2021, Renown Health entered into the following purchase commitments:

- a five-year agreement for cloud hosting services, with an option to cancel after three years. As of June 30, 2021, the remaining commitment totaled \$34,981, and
- a four-year consulting agreement for support on research and clinical objectives. As of June 30, 2021, the remaining commitment totaled \$11,563.

Renown Health
Notes to Combined Financial Statements
(In Thousands)

NOTE 17 – UNPAID CLAIMS

Renown Health medical claims payable are developed using an actuarial model to estimate incurred medical benefit liabilities for Commercial HMO, Commercial PPO, and Senior Care Plus products. The model is built on historical claims data that are reported in claims triangles split by incurred and paid months. For a given reporting period, the base reserve estimates are developed beginning five months prior to the current month using a completion factor methodology that is based on a rolling 12-month averaging period. The most current month's reserve is estimated using a projection methodology that develops an average cost per member per month. The projection method average is usually based on a rolling 12 months with the appropriate trend applied to each period used in the development of average costs. For each of the prior month's estimates, the model allows the user to weight each estimate using a combination of completion and projection methods. Medical claims are assumed to be complete within 12 to 13 months of incurred date.

Renown Health's medical claims activity and unpaid claims liabilities (presented prior to intercompany eliminations in order to present the complete insurance operations) as of and for the years ended June 30 were as follows:

	2021	2020
Medical claims payable, beginning of year	\$ 46,832	\$ 49,928
Reinsurance recoverables, beginning of year	(1,593)	(1,287)
Medical claims payable, net of reinsurance recoverables	45,239	48,641
Add provision for claims, net of reinsurance, occurring in:		
Current year	338,204	331,449
Prior years	(3,469)	(6,215)
Net incurred losses	334,735	325,234
Deduct payments for claims, net of reinsurance, occurring in:		
Current year	303,791	292,234
Prior years	35,128	36,402
Net claims payments	338,919	328,636
Medical claims payable, net of reinsurance recoverables	41,055	45,239
Reinsurance recoverables, end of year	3,868	1,593
Medical claims payable, end of year	\$ 44,923	\$ 46,832

The favorable development in 2021 and 2020 was a result of changes in estimates of insured events in prior years. Net claims incurred decreased by \$3,469 and \$6,215 in the years ended June 30, 2021 and 2020, respectively, due to better than estimated claim development and adequate margin established in the prior years' reserves. Due to uncertainties inherent in the reserving process, there is at least a reasonable possibility that actual claims paid could differ materially from amounts accrued.

Renown Health
Notes to Combined Financial Statements
(In Thousands)

In addition to the base reserve, there is a 10% margin for adverse claims development added to the base reserve estimates. The margin for adverse claims development is monitored and reviewed monthly and is also discussed with Renown Health's appointed actuary on a regular basis. Management believes the additional 10% reserve amounts beyond the base reserves are reasonable and appropriate. There were no changes in the methodology and assumptions used to calculate medical claims payable for the years ended June 30, 2021 and 2020.

NOTE 18 – SUBSEQUENT EVENTS

Renown Health has evaluated subsequent events through August 30, 2021, the date which the combined financial statements were issued.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Renown Health

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Renown Health, which comprise the combined balance sheet as of June 30, 2021, and the related combined statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated August 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Renown Health's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Renown Health's internal control. Accordingly, we do not express an opinion on the effectiveness of Renown Health's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Renown Health's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mass Adams LLP

San Francisco, California
August 30, 2021

Single Audit

Renown Health

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2021

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/CLUSTER - PROGRAM TITLE	Award Period	Assistance Listing Number	Pass-Through or Award Number	Federal Expenditures
<i>U.S. Department of Health and Human Services</i>				
COVID-19: HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	2/4/20-Open	93.461	N/A	\$ 2,040,335
COVID-19: Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	1/1/20-6/30/21	93.498	N/A	<u>28,492,447</u>
U.S. Department of Health and Human Services - direct programs subtotal				<u>30,532,782</u>
Pass-through awards from:				
Board of Regents, Nevada System of Higher Education State Targeted Response to the Opioid Crisis Grants	10/1/19-9/30/20	93.788	UNR-19-80	50,373
COVID-19: Nevada Hospital Association National Bioterrorism Hospital Preparedness Program	1/20/20-4/9/21	93.889	U3REP200657	129,691
The Children's Cabinet, Inc. Child Care and Development Block Grant - part of the Child Care and Development Fund Cluster	3/16/20-12/31/20	93.575	N/A	291,630
State of NV Department of Health and Human Services, Division of Public & Behavioral Health Epidemiology and Laboratory Capacity for Infectious Diseases	3/1/20-12/31/21	93.323	HD 17906	<u>67,404</u>
U.S. Department of Health and Human Services - pass-through programs subtotal				<u>539,098</u>
Total U.S. Department of Health and Human Services				<u>31,071,880</u>
<i>U.S. Department of Agriculture</i>				
Distance Learning and Telemedicine Loans and Grants	11/30/18-11/30/22	10.855	NV0708-B17	<u>12,153</u>
Total U.S. Department of Agriculture				<u>12,153</u>
<i>Federal Communications Commission</i>				
COVID-19: COVID-19 Telehealth Program	4/2/20-N/A	32.006	0270	<u>363,342</u>
Total Federal Communications Commission				<u>363,342</u>
<i>U.S. Department of Homeland Security</i>				
Pass-through awards from:				
State of NV Department of Public Safety, Division of Emergency Management COVID-19: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	4/4/20-9/30/21	97.036	PA-09-NV-4523-PW-00015(0)	<u>1,145,187</u>
Total U.S. Department of Homeland Security				<u>1,145,187</u>
<i>U.S. Department of Transportation</i>				
Highway Safety Cluster				
Pass-through awards from:				
State of NV Department of Public Safety, Office of Traffic Safety National Priority Safety Programs	10/1/19-9/30/2020	20.616	TS-2020-Renown-00121	<u>8,940</u>
Total Highway Safety Cluster				<u>8,940</u>
Total U.S. Department of Transportation				<u>8,940</u>
<i>U.S. Department of the Treasury</i>				
Pass-through awards from:				
State of NV Department of Health and Human Services, Division of Public & Behavioral Health COVID-19: Coronavirus Relief Fund	8/1/20-12/30/20	21.019	HD 17906	1,073,379
Nevada Governor's Finance Office, Washoe County COVID-19: Coronavirus Relief Fund	11/1/20-9/30/21	21.019	CRF-CARES-000006	<u>1,435,217</u>
Total U.S. Department of the Treasury				<u>2,508,596</u>
Total Expenditures of Federal Awards				<u>\$ 35,110,098</u>

Renown Health
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Renown Health, under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Renown Health, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of Renown Health. The Schedule includes expenditures of federal awards from Renown Regional Medical Center (Taxpayer Identification Number 88-0213754), Renown South Meadows Medical Center (Taxpayer Identification Number 46-0517825) and Hometown Health Management Company (Taxpayer Identification Number 88-0236758).

In accordance with guidance from the U.S. Department of Health and Human Services (“DHHS”), Renown Health included the Reporting Period 1 expenditures for Provider Relief Fund Assistance Listing No. 93.498 of \$28,492,447 in the Schedule for the year ended June 30, 2021, to align with DHHS reporting guidelines. In accordance with U.S. GAAP, the total amount of \$28,492,447 of Provider Relief Fund assistance received by Renown Health was recognized as revenue during the year ended June 30, 2020, and is included in beginning net assets as of and for the year ended June 30, 2021.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

Renown Health has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.

NOTE 4 – SUBRECIPIENT AWARDS

Renown Health did not provide any federal awards to subrecipients during the year ended June 30, 2021.

Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
Renown Health

Report on Compliance for Each Major Federal Program

We have audited Renown Health's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Renown Health's major federal programs for the year ended June 30, 2021. Renown Health's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Renown Health's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Renown Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Renown Health's compliance.

Opinion on Each Major Federal Program

In our opinion, Renown Health complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of Renown Health is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Renown Health's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Renown Health's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a significant deficiency.

Renown Health's response to the internal control over compliance findings identified in our audit is described in the accompanying *schedule of findings and questioned costs*. Renown Health's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response,

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the combined financial statements of Renown Health as of and for the year ended June 30, 2021, and have issued our report thereon dated August 30, 2021, which contained an unmodified opinion on those combined financial statements. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the combined financial statements as a whole.

Mass Adams LLP

San Francisco, California
August 29, 2022

Renown Health
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of Each Major Federal Program and Type of Auditor's Report Issued on Compliance for Each Major Federal Program:

<i>Federal Assistance Listing Number</i>	<i>Name of Major Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued on Compliance for The Major Federal Program</i>
93.498	<i>COVID-19: Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution</i>	<i>Unmodified</i>
21.019	<i>COVID-19: Coronavirus Relief Fund</i>	<i>Unmodified</i>
93.461	<i>COVID-19: HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund</i>	<i>Unmodified</i>
97.036	<i>COVID-19: Disaster Grants - Public Assistance (Presidentially Declared Disasters)</i>	<i>Unmodified</i>

Dollar threshold used to distinguish between type A and type B programs: \$1,053,303

Auditee qualified as low-risk auditee? Yes No

Renown Health
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Section II - Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

Finding 2021-001 – Eligibility – Significant Deficiency in Internal Control Over Compliance

Federal Program: HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund (Assistance Listing #93.461)

Federal Agency: U.S. Department of Health and Human Services

Award Year: 2020-2021

Criteria:

Under the HRSA COVID-19 Claims Reimbursement for the Uninsured Program, health care providers are limited to submitting claims for services provided to individuals who, at the time the services were provided, were uninsured as described in the terms and conditions.

Condition:

During our testing of the eligibility of the HRSA COVID-19 Claims Reimbursement for the Uninsured Program, eligibility documentation was not provided to support that Renown Health validated the uninsured status of individuals to whom services were provided at the time the claims were submitted to HRSA for 15 of 40 sampled claims. Additionally, controls were not put in place consistently to evaluate whether patients with pending insurance coverage at the time of service subsequently qualified for insurance retroactive to the service date.

Cause:

Renown Health has experienced significant business and staffing disruption as a result of the pandemic. As such, certain administrative actions were missed in order to prioritize providing required medical care to patients.

Effect or potential effect:

Due to the above noted business and staffing disruptions, claims were submitted to HRSA under the COVID-19 Claims Reimbursement for the Uninsured Program for individuals who possessed insurance as of the date that services were provided.

Questioned costs:

None to be reported.

Renown Health
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Context:

During the fiscal year ended June 30, 2021, health care providers were subject to staffing shortages as well as increased operational challenges as a result of the COVID-19 pandemic. As a result, Renown Health did not have sufficient staffing levels to validate the insurance coverage prior to submitting claims to HRSA.

Identification as a repeat finding, if applicable:

This is not a repeat finding.

Recommendation:

We recommend that Renown Health validate the insurance coverage of individuals prior to submitting claims to HRSA under the COVID-19 Claims Reimbursement for the Uninsured Program to ensure reimbursement is not received for services provided to individuals that have insurance coverage.

Views of responsible officials:

Renown Health has engaged a qualified third-party consultant to review the uninsured status at the time the claims were submitted to HRSA for all claims submitted. Any refunds owed to HRSA that are identified during this process will be repaid in a timely manner.

Renown Health

Management's Views and Corrective Action Plan

Year Ended June 30, 2021



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As required by OMB Uniform Guidance, we have provided below our response and corrective action plan addressing the finding in the "Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance" for the year ended June 30, 2021.

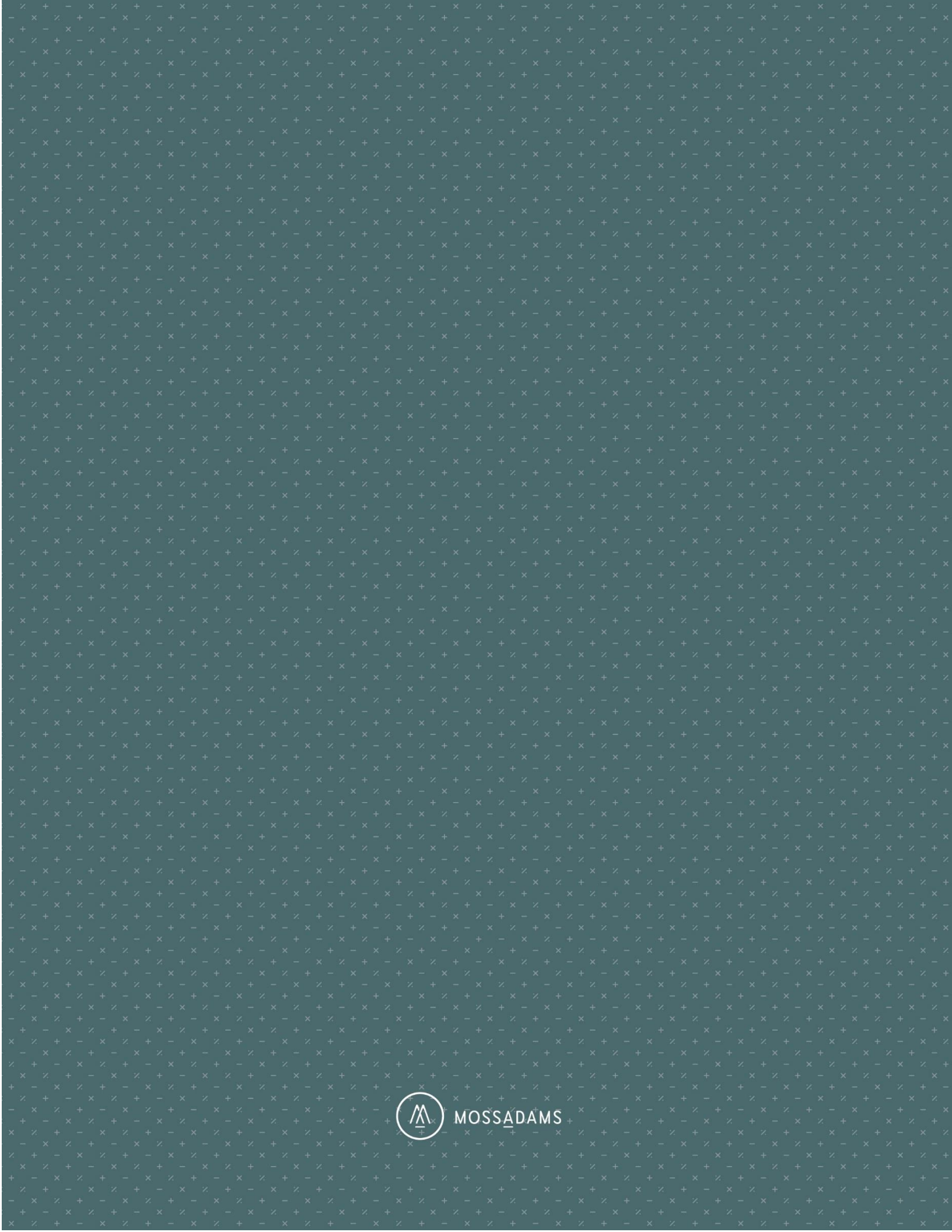
Management's Views and Corrective Action Plan

Ref No.: 2021-001 – Eligibility:

Renown Health agrees with the finding and has implemented a corrective action plan. Renown Health has engaged a qualified third-party consultant to identify claims submitted to HRSA for services provided to individuals in fiscal year 2021 who, at the time the services were provided, possessed insurance. Claims identified by the third-party consultant were further validated by Renown Health. All refunds identified during this process have been repaid to HRSA in a timely manner. Additionally, Renown Health has implemented enhancements to the coverage discovery functionality within its Electronic Medical Record System to reduce manual processes which contributed to the errors. With this corrective action plan, it is expected that this issue has been resolved and will not reoccur.

Anticipated Date of Corrective Action: August 12, 2022

Party Responsible for Corrective Action: Ann Beck, Chief Financial Officer



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