



**Consolidated  
Financial Statements and  
Supplementary Information  
and Single Audit Reports**

**Years Ended  
December 31, 2019  
and 2018**

# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## TABLE OF CONTENTS

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6
<b>Independent Auditors' Report on Supplementary Information</b>	22
<b>Supplementary Information</b>	
Summary of Operations	23
Gross Patient Care Service Revenue	24
Operating Departments' Expenses	25
Service Departments' Expenses and Administrative and General Expenses	26
<b>Single Audit Reports</b>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with <i>Government Auditing     Standards</i>	27
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	29
Schedule of Expenditures of Federal Awards	31
Notes to Schedule of Expenditures of Federal Awards	32
Schedule of Findings and Questioned Costs	33
Summary Schedule of Prior Audit Findings	34



5885 Meadows Road, No. 200 / Lake Oswego, OR 97035 / 503.697.4118 / delapcpa.com

## **Independent Auditors' Report**

---

To the Board of Directors of  
Santiam Memorial Hospital,  
dba Santiam Hospital

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Santiam Memorial Hospital (an Oregon nonprofit corporation) and subsidiary, collectively doing business as (dba) "Santiam Hospital" (the Hospital), as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets without donor restrictions, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Santiam Memorial Hospital and subsidiary, collectively dba Santiam Hospital, as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



### **Change in Accounting Principle**

As discussed in Note 1 to the accompanying consolidated financial statements, effective January 1, 2019, the Hospital adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

### **Other Matters**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2020, on our consideration of the Hospital'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 the Hospital'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 the Hospital's internal control over financial reporting and compliance.

DELAP LLP

April 6, 2020

**Santiam Memorial Hospital and Subsidiary**  
**dba Santiam Hospital**  
**Consolidated Balance Sheets**  
**December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 5,931,694	\$ 1,167,836
Assets limited as to use	144,125	172,696
Patient accounts receivable - net of allowance for doubtful accounts of \$1,835,000 in 2018	7,506,857	10,609,484
Supplies inventory	1,793,376	1,671,314
Prepaid expenses and other current assets	1,232,285	1,298,152
Total current assets	16,608,337	14,919,482
Assets limited as to use - net of current portion	3,552,324	3,226,746
Long-term investments	2,742,579	2,519,379
Property and equipment - net	29,886,017	31,954,250
Other noncurrent assets	698,393	1,148,590
<b>Total Assets</b>	<b>\$ 53,487,650</b>	<b>\$ 53,768,447</b>
<b>Liabilities and Net Assets Without Donor Restrictions</b>		
Current liabilities		
Accounts payable	\$ 1,641,938	\$ 3,017,212
Accrued liabilities		
Payroll, payroll taxes, and withholdings	1,457,619	1,171,659
Paid time off	953,992	941,588
Other	1,238,785	714,784
Estimated third-party payor settlements payable - net	601,568	630,237
Current portion of long-term obligations	946,133	905,930
Total current liabilities	6,840,035	7,381,410
Long-term obligations - net	21,079,210	21,883,783
Other noncurrent liabilities	833,665	1,280,863
Total liabilities	28,752,910	30,546,056
Net assets without donor restrictions	24,734,740	23,222,391
<b>Total Liabilities and Net Assets Without Donor Restrictions</b>	<b>\$ 53,487,650</b>	<b>\$ 53,768,447</b>

The accompanying notes are an integral part of the consolidated financial statements.

**Santiam Memorial Hospital and Subsidiary  
dba Santiam Hospital**

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

**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
Revenue		
Patient care service revenue before provision for bad debts		\$ 53,494,343
Provision for bad debts		(3,115,995)
Patient care service revenue	\$ 56,744,606	50,378,348
Other revenue	1,787,033	1,668,276
Total revenue	58,531,639	52,046,624
Expenses		
Operating departments	41,374,531	40,177,855
Service departments	3,980,117	3,829,145
Administrative and general	8,262,036	7,606,921
Interest	1,179,252	1,222,567
Depreciation	2,551,217	2,215,954
Total expenses	57,347,153	55,052,442
<b>Operating Income (Loss)</b>	1,184,486	(3,005,818)
Other income (expense)		
Investment income (loss) - net	271,583	(22,207)
Other - net	56,280	43,980
Total other income - net	327,863	21,773
<b>Excess (Deficit) of Revenue Over Expenses</b>	1,512,349	(2,984,045)
Net assets without donor restrictions - beginning of year	23,222,391	26,206,436
<b>Net Assets Without Donor Restrictions - End of Year</b>	<b>\$ 24,734,740</b>	<b>\$ 23,222,391</b>

The accompanying notes are an integral part of the consolidated financial statements.

# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Consolidated Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash Flows From Operating Activities</b>		
Excess (deficit) of revenue over expenses	\$ 1,512,349	\$ (2,984,045)
Adjustments to reconcile excess (deficit) of revenue over expenses to net cash provided (used) by operating activities		
Provision for bad debts	-	3,115,995
Depreciation	2,551,217	2,215,954
Amortization and accretion of debt obligation - net	141,560	146,248
Net realized and unrealized losses (gains) on investments	(150,944)	145,836
Changes in certain operating assets and liabilities		
Patient accounts receivable	3,102,627	(7,061,244)
Supplies inventory	(122,062)	(223,843)
Prepaid expenses and other current assets	65,867	(100,940)
Long-term investments	(72,256)	(1,713,362)
Other noncurrent assets	450,197	(481,717)
Accounts payable	(1,375,274)	1,375,907
Accrued liabilities	822,365	(119,277)
Estimated third-party payor settlements payable - net	(28,669)	365,224
Other noncurrent liabilities	(447,198)	499,718
Net cash provided (used) by operating activities	<u>6,449,779</u>	<u>(4,819,546)</u>
<b>Cash Flows From Investing Activities</b>		
Decrease (increase) in assets limited as to use - net	47,753	(1,334)
Purchases of property and equipment - net	(482,984)	(2,754,984)
Net cash used by investing activities	<u>(435,231)</u>	<u>(2,756,318)</u>
<b>Cash Flows From Financing Activities</b>		
Principal paid on long-term obligations	(905,930)	(867,435)
Net cash used by financing activities	<u>(905,930)</u>	<u>(867,435)</u>
<b>Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash</b>	5,108,618	(8,443,299)
Cash, cash equivalents, and restricted cash - beginning of year	4,042,948	12,486,247
<b>Cash, Cash Equivalents, and Restricted Cash - End of Year</b>	<u><u>\$ 9,151,566</u></u>	<u><u>\$ 4,042,948</u></u>

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the consolidated balance sheets to the amounts reported in the consolidated statements of cash flows:

Cash and cash equivalents	\$ 5,931,694	\$ 1,167,836
Restricted cash included in assets limited as to use		
Internally designated for capital acquisitions	369,732	321,010
Restricted amounts related to a mortgage note payable agreement	2,850,140	2,554,102
	<u><u>\$ 9,151,566</u></u>	<u><u>\$ 4,042,948</u></u>

### Supplemental Disclosure of Cash Flow Information

Cash paid during the year for interest	<u><u>\$ 1,031,605</u></u>	<u><u>\$ 1,067,755</u></u>
--	----------------------------	----------------------------

The accompanying notes are an integral part of the consolidated financial statements.

# **Santiam Memorial Hospital and Subsidiary dba Santiam Hospital**

## **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2019 and 2018**

### **1. Business, Organization, and Summary of Significant Accounting Policies**

#### **Business, organization, and principles of consolidation**

Santiam Memorial Hospital is an Oregon nonprofit corporation located in Stayton, Oregon. Santiam Memorial Hospital provides inpatient, outpatient, and emergency health care services primarily to residents in the local geographic area. Santiam Medical Group, LLC (the Medical Group) provides outpatient medical services at Santiam Memorial Hospital's various clinic locations. Santiam Memorial Hospital is the 100% owner of the Medical Group. Santiam Memorial Hospital and the Medical Group are collectively doing business as "Santiam Hospital" (the Hospital).

The accompanying consolidated financial statements include the accounts and transactions of the Hospital. All significant intercompany accounts and transactions have been eliminated in consolidation.

#### **Method of accounting**

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S.) (GAAP) using the accrual method of accounting which recognizes revenue, income, and gains when earned and expenses and losses when incurred. The preparation of consolidated financial statements in conformity with GAAP requires management of the Hospital (Management) to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue, income, gains, expenses, and losses during the reporting period. Actual results could differ from those estimates.

#### **New revenue recognition standard**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which created FASB Accounting Standards Codification (ASC) Topic 606 (ASC 606). ASC 606 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The Hospital adopted ASC 606 effective January 1, 2019 using a modified retrospective method of application to all contracts existing on January 1, 2019. Therefore, the comparative information has not been adjusted and continues to be reported under superseded ASC 605, and the Hospital's accounting policies related to revenue were revised accordingly effective January 1, 2019, as discussed below.

The adoption of ASC 606 resulted in changes to the presentation for and disclosure of revenue primarily related to uninsured or underinsured patients. Prior to the adoption of ASC 606, a significant portion of the Hospital's provision for bad debts related to self-pay patients, as well as co-pays, co-insurance amounts, and deductibles owed by patients with insurance. Under ASC 606, the estimated uncollectible amounts due from these patients are generally considered implicit price concessions that are a direct reduction to patient care service revenue, instead of being reported separately as provision for bad debts. For the year ended December 31, 2019, the Hospital recorded approximately \$2,760,000 of implicit price concessions as a direct reduction of patient care service revenue that would have been recorded as provision for bad debts prior to the adoption of ASC 606.

Under the provisions of ASC 606, amounts related to service provided to patients for which the Hospital has not billed and that do not meet the conditions of unconditional right to payment at the end of the reporting period are contract assets. The Hospital's contract assets consist primarily of services that have been



# **Santiam Memorial Hospital and Subsidiary dba Santiam Hospital**

## **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2019 and 2018**

provided to patients who are still receiving inpatient care in the Hospital's facilities at the end of the reporting period. Contract assets were insignificant as of December 31, 2019, and no contract assets were recorded in connection with the adoption of ASC 606.

### **Patient care service revenue**

The Hospital recognizes patient care service revenue in the period in which performance obligations under contracts are satisfied by transferring services to patients. Patient care service revenue is recognized in the amounts to which the Hospital expects to be entitled, which are the transaction prices allocated to the distinct services. Patient care service revenue primarily consists of revenue for patients covered by Medicare, Oregon Health Plan (OHP) and Medicaid, and commercial insurance, as well as revenue for certain uninsured patients under charity care programs.

The Hospital reports patient care service revenue at the amounts that reflect the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including government programs and commercial insurance), and others, and they include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Hospital bills patients and third-party payors several days after the services are performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided and may be satisfied over time or at a point in time. The Hospital recognizes revenue for performance obligations satisfied over time based on the actual charges incurred in relation to total expected charges. Management has determined that this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services. Performance obligations from admission are measured to the point when there are no further services required for the patient, which is generally the time of discharge. For performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, revenue is recognized when (1) services are provided, and (2) the patient does not require additional services.

All of the Hospital's patient service performance obligations relate to contracts with a duration of less than one year. Accordingly, the Hospital has elected to apply the optional exemption provided in ASC 606, and, therefore, the Hospital is not required 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 (contract assets). The Hospital's contract assets 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, in rare instances, within weeks – of the end of the reporting period. Contract assets were insignificant as of December 31, 2019 and 2018.

The transaction price is based on gross charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's charity care policy, and implicit price concessions provided primarily to uninsured and underinsured patients. Management has determined the estimate of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience. Management has also determined the estimate of implicit price concessions based on historical collection experience with these patient classes using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The consolidated financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Gross charges are retail charges. They are not the same as actual pricing, and they generally do not reflect what a hospital is ultimately paid and, therefore, are not displayed in the consolidated statements of operations and changes in net assets without donor restrictions. Hospitals are typically paid amounts that are negotiated with insurance companies or are set by the government.

# **Santiam Memorial Hospital and Subsidiary dba Santiam Hospital**

## **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2019 and 2018**

A significant portion of the Hospital's services is provided to Medicare, OHP, and Medicaid patients under contractual arrangements. Inpatient acute care services rendered by the Hospital to Medicare program beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors (i.e., "Medicare severity-diagnosis related groups" or "MS-DRGs"). Such payments include a capital cost component and may be greater or less than the actual charges for services. Inpatient non-acute care services related to Medicare beneficiaries are reimbursed under a cost reimbursement methodology. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. In addition, certain outpatient services related to Medicare beneficiaries are reimbursed based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after audits of the Hospital's annual cost reports by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited and final settled by the Medicare fiscal intermediary through December 31, 2015.

Services rendered to OHP beneficiaries are primarily reimbursed at discounts from standard charges or based on fee schedules. Services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Under this methodology, the Hospital is reimbursed at a tentative rate with final settlement determined after audits of the Hospital's annual cost reports by Medicaid. The Hospital's Medicaid cost reports have been audited and final settled by Medicaid through December 31, 2015.

The laws and regulations governing the Medicare, OHP, and Medicaid programs are extremely complex and subject to interpretation. In addition, the Recovery Audit Contractors program requires the evaluation of certain Medicare and Medicaid claims for propriety by third-party contractors. As a result, there is at least a reasonable possibility that recorded amounts for estimated third-party payor settlements will change by a material amount in the near-term.

Management has established a system and estimation process for recording Medicare, OHP, and Medicaid patient care service revenue and estimated cost report settlements. As a result, the Hospital records a receivable or payable to reflect the expected final settlements on cost reports. For filed cost reports, a receivable or payable is recorded based on those cost reports and subsequent activity, and a valuation allowance is recorded against those cost reports based on historical settlement trends. For periods for which a cost report is yet to be filed, a receivable or payable is recorded based on estimates of what Management expects to report on the filed cost reports, and a corresponding valuation allowance is recorded as previously described. Medicare cost reports generally must be filed within five months after the end of the annual cost reporting period. After a cost report is filed, the receivable (payable) and corresponding valuation allowance may need to be adjusted.

Settlements with third-party payors for retroactive revenue 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 using the most likely outcome method. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and historical settlement trends, 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, when new information becomes available) or as years are settled or are no longer subject to such audits, reviews, and investigations.

# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Notes to Consolidated Financial Statements

**Years Ended December 31, 2019 and 2018**

Activity related to the Hospital's estimated third-party payor settlements payable - net for the years ended December 31, 2019 and 2018 was approximately as follows:

	<b>Medicare</b>	<b>Medicaid</b>	<b>Total</b>
Balances as of December 31, 2017	\$ 10,000	\$ (275,000)	\$ (265,000)
Settlements received related to prior years' cost reports	(304,000)	(27,000)	(331,000)
Revisions of estimates for prior years' cost report settlements - net	204,000	(28,000)	176,000
Estimates for 2018 cost report settlements	(45,000)	(165,000)	(210,000)
Balances as of December 31, 2018	(135,000)	(495,000)	(630,000)
Settlements received related to prior years' cost reports	(160,000)	-	(160,000)
Revisions of estimates for prior years' cost report settlements	160,000	-	160,000
Estimates for 2019 cost report settlements	163,000	(135,000)	28,000
Balances as of December 31, 2019	<u>\$ 28,000</u>	<u>\$ (630,000)</u>	<u>\$ (602,000)</u>

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations to provide medical services to subscribing participants. Revenue under these arrangements is based primarily on prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates based on the types of services provided. This revenue is also subject to review and possible audit by the payors, which can take several years before they are completely resolved. The payors are billed for patient services on an individual patient basis. An individual patient's bill is subject to adjustment on a patient-by-patient basis in the ordinary course of business by the payors following their review and adjudication of each particular bill. Management estimates the discounts for contractual allowances utilizing billing data on an individual patient basis. At the end of each month, an estimate is recorded for expected reimbursement for patients of commercial and other insurance plans based on the applicable contract terms. Contractual allowance estimates are periodically reviewed for accuracy by taking into consideration known contract terms, as well as payment history. The estimation and review process enables Management to identify instances on a timely basis where such estimates need to be revised. Commercial insurance accounts, net of contractual allowances recorded, are further reduced to their net realizable value through implicit price concessions based on historical collection trends for these payors and other factors that affect the estimation process.

Generally, patients who are covered by third-party payors are responsible for related co-pays, co-insurance, and deductibles, which vary in amount. The Hospital also provides services to uninsured patients and offers uninsured patients a discount from standard charges. Management estimates the transaction price for patients with co-pays, co-insurance, and deductibles, and for those who are uninsured, based on historical collection experience and current market conditions. Under the Hospital's uninsured discount programs, the discount offered to certain uninsured patients is recognized as contractual allowance, which reduces patient care service revenue at the time that the self-pay accounts are recorded. The uninsured patient accounts, net of contractual allowances recorded, are further reduced to their net realizable value at the time that they are recorded through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process. There are various factors that can impact collection trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients, the volume of patients provided service in the emergency department, the increased burden of co-pays, co-insurance amounts, and deductibles to be made by patients with insurance, and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the estimation process. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient care service revenue in the period of the change.

# **Santiam Memorial Hospital and Subsidiary dba Santiam Hospital**

## **Notes to Consolidated Financial Statements Years Ended December 31, 2019 and 2018**

The Hospital provides implicit price concessions, primarily to uninsured patients and patients with co-pays, co-insurance, and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and amounts the Hospital expects to collect based on collection history with similar patients. Although outcomes vary, the Hospital's policy is to attempt to collect amounts due from patients – including co-pays, co-insurance, and deductibles due from patients with insurance – at the time of service while complying with all federal and state statutes and regulations, including, but not limited to, the *Emergency Medical Treatment and Active Labor Act* (EMTALA). Generally, as required by EMTALA, patients may not be denied emergency treatment due to inability to pay. Therefore, services (including the legally required medical screening examination and stabilization of the patient) are performed without delaying to obtain insurance information. In non-emergency circumstances or for elective procedures and services, it is the Hospital's policy to verify insurance prior to a patient being treated; however, there are various exceptions that can occur. Such exceptions can include, for example, instances where (1) the Hospital is unable to obtain verification because the patient's insurance company was unable to be reached or contacted, (2) a determination is made that a patient may be eligible for benefits under various government programs – such as Medicaid – and it takes several days or weeks before qualification for such benefits is confirmed or denied, and (3) under physician orders, services are provided to patients that require immediate treatment.

The Hospital has elected the practical expedient provided under ASC 606 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Hospital's expectation that the period between the time that the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Hospital does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

### **Charity care**

The Hospital provides services to patients who meet the criteria of its charity care policy without charge or at amounts less than its established rates. The Hospital's criteria for the determination of charity care include the patient's – or the other responsible party's – annual household income, assets, credit history, existing debt obligations, and other indicators of the patient's ability to pay. Generally, uninsured individuals with an annual household income at, or less than, 200% of the Federal Poverty Guidelines (the Guidelines) qualify for charity care under the Hospital's policy. In addition, the Hospital provides discounts on a sliding scale to those individuals with an annual household income of between 200% and 300% of the Guidelines. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported in patient care service revenue.

### **Patient accounts receivable**

The collection of receivables from third-party payors and patients is the Hospital's primary source of cash and is critical to its operating performance. When the Hospital provides care to patients, it does not require collateral. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but the patient is responsible for the remaining amounts outstanding (generally deductibles and co-payments).

For patient accounts receivable resulting from revenue recognized prior to January 1, 2019, an estimated allowance for doubtful accounts was established to reduce the carrying value of such receivables to their estimated net realizable value. For such patient accounts receivable due from self-pay – which included both patients without insurance and patients with deductible and copayment balances due for which third-party coverage existed for part of the bill – the Hospital recorded a significant allowance for doubtful accounts. Generally, the allowance for doubtful accounts was estimated based primarily upon the Hospital's historical collection experience, the age of patients' accounts, Management's estimate of its patients' economic ability to pay, and the effectiveness of collection efforts. For patient accounts receivable resulting from revenue recognized prior to January 1, 2019, the Hospital had not historically maintained a

# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Notes to Consolidated Financial Statements

**Years Ended December 31, 2019 and 2018**

significant allowance for doubtful accounts related to patient accounts receivable from third-party payors, nor did it have significant bad debt write-offs of patient accounts receivable from third-party payors. However, for services provided to patients who had third-party coverage, the Hospital recorded the related patient care service revenue and patient accounts receivable net of contractual discounts and allowances. The Hospital's allowance for doubtful accounts represented 57% of gross self-pay patient accounts receivable as of December 31, 2018.

The following is an approximate summary of the activity in the Hospital's allowance for doubtful accounts for the year ended December 31, 2018:

Balance - December 31, 2017	\$ 1,101,000
Provision for bad debts	3,116,000
Accounts written off - net of recoveries	<u>(2,382,000)</u>
Balance - December 31, 2018	<u>\$ 1,835,000</u>

Under the provisions of ASC 606, patient accounts receivable – including billed accounts and unbilled accounts for which the Hospital has the unconditional right to payment, and estimated amounts due from third-party payors for retroactive adjustments – are receivables if the Hospital's right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. For patients accounts receivable arising subsequent to the adoption of ASC 606 on January 1, 2019, the estimated uncollectible amounts are generally considered implicit price concessions that are a direct reduction to patient accounts receivable rather than as an allowance for doubtful accounts.

Significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental health care coverage could affect the Hospital's collection of patient accounts receivable, cash flows, and results of operations.

Significant concentrations of gross patient accounts receivable as of December 31, 2019 and 2018 were approximately as follows:

	<u><b>2019</b></u>	<u><b>2018</b></u>
Medicare	33%	42%
OHP and Medicaid	13	17
Commercial insurance and other third-party payors	27	27
Self-pay	<u>27</u>	<u>14</u>
	<u>100%</u>	<u>100%</u>

### **Cash and cash equivalents**

Cash and cash equivalents include investments in highly liquid debt instruments with remaining maturities of three months or less at the time of purchase by the Hospital, excluding assets limited as to use (see Note 2). The Hospital maintains its bank accounts at several financial institutions. The Hospital's accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each financial institution. As of December 31, 2019, certain of the Hospital's bank balances exceeded the applicable FDIC coverage; however, Management believes that its credit risk with respect to these bank balances is minimal due to the financial strength of the financial institutions.

### **Assets limited as to use and long-term investments**

Assets limited as to use consist of assets (cash, money market accounts, and certificates of deposit) designated by the Hospital's Board of Directors (the Board) for future capital acquisitions, over which the Board retains control and may, at its discretion, subsequently use for other purposes (internally designated assets); and cash held in escrow accounts restricted pursuant to a mortgage note payable agreement with

# **Santiam Memorial Hospital and Subsidiary dba Santiam Hospital**

## **Notes to Consolidated Financial Statements Years Ended December 31, 2019 and 2018**

Midland States Bank (the Mortgage Note) (see Notes 2 and 4). As of December 31, 2019, long-term investments consisted of equity mutual and exchange-traded funds, fixed income mutual funds, and corporate bonds (see Note 2).

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets (see Note 9). Investment income or loss (including interest, dividends, realized and unrealized gains and losses, and external and direct internal investment expenses) is included in the excess (deficit) of revenue over expenses unless their use is limited by donor-imposed restrictions or by law that extends donor restrictions, in which case investment income or loss on equity securities would be reported as increases or decreases in net assets with donor restrictions. For cash flow reporting purposes, purchases, sales, and maturities of assets limited as to use are classified as investing activities; and purchases, sales, and maturities of other investments are classified as cash flows from operating activities.

Management believes that the Hospital's credit risk with respect to assets limited as to use and long-term investments is minimal due to FDIC insurance coverage, the diversity of the individual instruments, and the financial strength of the entities which have issued the securities or instruments. However, due to changes in economic conditions, interest rates, and common stock prices, the fair value of the Hospital's assets limited as to use and long-term investments can be volatile. Consequently, the fair value of the Hospital's assets limited as to use and long-term investments can change significantly in the near-term as a result of such volatility.

### **Supplies inventory**

Supplies inventory is recorded at the lower of cost (first-in, first-out method) or net realizable value.

### **Property and equipment**

Property and equipment acquisitions are recorded at cost. Donated property and equipment items are recorded at the estimated fair value at the date of their donation. Property and equipment acquisitions – and improvements and replacements of property and equipment – with a cost of \$2,500 or more are capitalized. Lesser amounts, and routine maintenance and repairs, are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the depreciable assets based on guidelines published by the American Hospital Association and is computed using the straight-line method. Net interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Management reviews property and equipment for possible impairment whenever events or circumstances indicate that the carrying amount of property and equipment may not be recoverable. If there is an indication of impairment, Management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these estimated cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value.

Contributions of long-lived assets such as land, buildings, and equipment are reported as support without donor restrictions and are excluded from the excess (deficit) of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets would be reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Hospital reports expirations of donor restrictions as support when the donated or acquired long-lived assets are placed in service.

# **Santiam Memorial Hospital and Subsidiary dba Santiam Hospital**

## **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2019 and 2018**

### **Deferred financing costs and premium on the Mortgage Note**

Deferred financing costs are amortized to interest expense – and the premium on the Mortgage Note is accreted as an offset to interest expense – over the term of the related Mortgage Note using the interest method.

### **Willamette Valley Community Health, LLC**

Oregon statutes provide a framework for the creation of coordinated care organizations (CCOs) which are responsible for providing fully integrated physical, mental, and dental health services for OHP patients. The Hospital invested approximately \$273,000 in Willamette Valley Community Health, LLC (WVCH), an Oregon CCO, which represents an approximate 9% ownership interest. This investment in WVCH is included in other noncurrent assets in the accompanying consolidated balance sheets. The Hospital accounts for its interest in WVCH at cost and records dividends or distributions from WVCH as other income when received. The Hospital did not receive any distributions from WVCH during the years ended December 31, 2019 or 2018.

The Hospital has a contract with WVCH to provide health care services to certain OHP patients. The Hospital's estimated patient care service revenue related to this contract was approximately \$6,388,000 and \$6,754,000 for the years ended December 31, 2019 and 2018, respectively. The Hospital's estimated patient accounts receivable related to this contract was approximately \$658,000 and \$1,139,000 as of December 31, 2019 and 2018, respectively.

In January 2019, the Board of Directors of WVCH voted to discontinue the operations of WVCH after December 31, 2019. Management believes that the Hospital will recover the full amount of its investment in WCVH during the year ending December 31, 2020.

### **Consolidated statements of operations and changes in net assets without donor restrictions**

For purposes of presentation, transactions deemed by Management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as other income and expenses.

### **Oregon provider tax**

The Hospital is subject to a "provider tax" levied by the State of Oregon (Oregon) to provide additional funding for OHP. The tax is based on patient care service revenue, as adjusted, in accordance with the rules governing the program. The Hospital recorded provider taxes of approximately \$1,846,000 and \$1,574,000 for the years ended December 31, 2019 and 2018, respectively, which are included in administrative and general expenses in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

In addition, the Hospital has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments to the Hospital related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to the Hospital. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to qualifying hospitals. Any such amounts received by the Hospital from OAHHS are reflected as a component of patient care service revenue in the accompanying consolidated statements of operations and changes in net assets without donor restrictions. As of December 31, 2019 and 2018, prepaid expenses and other current assets include approximately \$376,000 and \$434,000, respectively, of provider taxes receivable due from OAHHS; and accounts payable includes approximately \$376,000 and \$434,000, respectively, of provider taxes payable to Oregon.

# **Santiam Memorial Hospital and Subsidiary dba Santiam Hospital**

## **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2019 and 2018**

### **Income taxes**

Santiam Memorial Hospital is a tax-exempt organization pursuant to Internal Revenue Code (IRC) Section 501(c)(3). As such, only unrelated business income is subject to federal or state income taxes. The Medical Group is a single-member limited liability company and is being treated as a "disregarded entity" for IRC reporting purposes. As a "disregarded entity," it is treated as a division of Santiam Memorial Hospital. It is Management's belief that none of the Hospital's activities have generated material unrelated business income; therefore, no provision for income taxes has been made in the accompanying consolidated financial statements.

Income tax positions that meet a "more-likely-than-not" recognition threshold are measured at the largest amount of income tax benefit that is more than 50% likely to be realized upon settlement with the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized income tax benefits in the Hospital's consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized income tax benefits would be classified as income taxes in the Hospital's consolidated statements of operations and changes in net assets without donor restrictions. There were no unrecognized income tax benefits, nor any interest and penalties associated with unrecognized income tax benefits, accrued or expensed as of and for the years ended December 31, 2019 and 2018.

The Hospital files a federal information return in the U.S. and a state information return in Oregon.

### **Recently issued accounting standards**

As discussed previously, the Hospital adopted ASC 606 related to revenue from contracts with patients effective January 1, 2019.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 generally requires all equity investments – except those accounted for under the equity method of accounting or those that result in consolidation of the investee – to be measured at fair value with changes in fair value recognized in changes in net assets. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. ASU 2016-01 is intended to simplify the impairment assessment of equity instruments without readily determinable fair values by requiring a qualitative assessment to identify impairment. ASU 2016-01 also eliminates certain disclosures related to the fair value of financial instruments, including eliminating the requirement for not-for-profit entities to disclose the fair value of financial instruments measured at amortized cost. The Hospital adopted ASU 2016-01 on January 1, 2019. The adoption of ASU 2016-01 did not have a material effect on the Hospital's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02), which created FASB ASC Topic 842 (ASC 842). ASC 842 is intended to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities in the consolidated balance sheet and disclosure of key information about leasing arrangements. The principal change required by ASC 842 relates to lessee accounting and is that for operating leases, a lessee is required to (1) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the consolidated balance sheet, (2) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term generally on a straight-line basis, and (3) classify all cash payments within operating activities in the consolidated statement of cash flows. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. ASC 842 also changes disclosure requirements related to leasing activities and requires certain qualitative disclosures along with



# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Notes to Consolidated Financial Statements

**Years Ended December 31, 2019 and 2018**

specific quantitative disclosures. In November 2019, the FASB delayed the implementation of ASC 842 for one year; therefore, ASC 842 is currently scheduled to be effective for the Hospital beginning in 2021 with early adoption permitted. Management is currently evaluating the impact that the adoption of ASC 842 will have on the Hospital's future consolidated financial statements.

### Reclassifications

Certain amounts for 2018 have been reclassified to conform with the 2019 presentation.

### Subsequent events

Management has evaluated, for potential recognition or disclosure in the consolidated financial statements, subsequent events that have occurred through April 6, 2020, which is the date that the consolidated financial statements were available to be issued.

The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a broad range of industries. In addition, on March 18, 2020, Oregon Governor Kate Brown issued an executive order to all Oregon hospitals, outpatient clinics, and health care providers to cease all non-emergency procedures in order to preserve personal protective equipment such as surgical masks, gowns, and gloves, for healthcare workers treating COVID-19 patients. To comply with this order, the Hospital has cancelled all elective surgical procedures and non-essential services. The impact on the Hospital's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, as well as the impact on the Hospital's patients, payors, employees, and vendors. The extent to which COVID-19 may impact the Hospital's future consolidated financial condition or results of operations is uncertain and cannot be reasonably estimated at this time.

## 2. Liquidity, Availability of Resources, Assets Limited as to Use, and Long-term Investments

As of December 31, 2019, the Hospital has working capital of approximately \$9,768,000 and average days (based on normal expenditures) cash on hand of 63.4.

Assets limited as to use consisted of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Internally designated for capital acquisitions		
Cash and cash equivalents	\$ 369,732	\$ 321,010
Certificates of deposit	476,577	524,330
Total internally designated for capital acquisitions	<u>846,309</u>	<u>845,340</u>
Restricted amounts related to the Mortgage Note (see Note 4)		
Cash held in trust related to mortgage reserve fund	2,706,015	2,381,406
Cash held in escrow related to taxes and insurance	144,125	172,696
Total restricted amounts related to the Mortgage Note	<u>2,850,140</u>	<u>2,554,102</u>
Less portion classified as current	<u>(144,125)</u>	<u>(172,696)</u>
Total restricted amounts related to the Mortgage Note - net of current portion	<u>2,706,015</u>	<u>2,381,406</u>
Total assets limited as to use - net of current portion	<u><u>\$ 3,552,324</u></u>	<u><u>\$ 3,226,746</u></u>

# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Notes to Consolidated Financial Statements Years Ended December 31, 2019 and 2018

Long-term investments consisted of the following as of December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Equity mutual and exchange-traded funds	\$ 899,776	\$ 752,090
Fixed income mutual funds	310,775	271,627
Corporate bonds	1,532,028	495,745
U.S. government bonds	-	989,725
Other	-	10,192
Long-term investments	<u>\$ 2,742,579</u>	<u>\$ 2,519,379</u>

The mortgage reserve fund held in trust in the above table is held by a trustee in accordance with the Mortgage Note, and the cash held in escrow related to taxes and insurance is held by Midland States Bank (see Notes 1 and 4). The current portion of restricted amounts related to the Mortgage Note are available to be used within one year for taxes and insurance (see below), and the long-term investments are available to be used for other purposes at the discretion of Management. The other assets limited to use, consisting of internally designated assets and restricted amounts related to the Mortgage Note - net of current portion are not available for general expenditure within the next year. However, the amounts internally designated by the Board could be made available, if necessary.

The Hospital's financial assets available for general expenditure within one year of December 31, 2019 and 2018 consist of the following:

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 5,931,694	\$ 1,167,836
Assets limited to use - held by trustee	144,125	172,696
Patient accounts receivable - net	7,506,857	10,609,484
	<u>\$ 13,582,676</u>	<u>\$ 11,950,016</u>

Investment income (loss) - net consisted of the following for the years ended December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Interest and dividend income	\$ 120,639	\$ 123,629
Realized gains (losses) on sales of securities - net	(4,728)	41,047
Net unrealized gains (losses) on securities - net	155,672	(186,883)
Investment income (loss) - net	<u>\$ 271,583</u>	<u>\$ (22,207)</u>

### 3. Property and Equipment

Property and equipment consisted of the following as of December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Land	\$ 1,470,904	\$ 1,470,904
Land improvements	619,850	619,850
Buildings and improvements	39,027,741	38,960,822
Equipment	16,814,528	16,947,303
	<u>57,933,023</u>	<u>57,998,879</u>
Less accumulated depreciation	<u>(28,579,280)</u>	<u>(26,320,449)</u>
	29,353,743	31,678,430
Construction in progress	532,274	275,820
Property and equipment - net	<u>\$ 29,886,017</u>	<u>\$ 31,954,250</u>

# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

### 4. Long-term Obligations

Long-term obligations consisted of the following as of December 31, 2019 and 2018:

	2019	2018
Mortgage Note	\$ 23,251,197	\$ 24,101,932
Other	180,723	235,918
Unamortized bond premium	885,729	976,626
Deferred financing costs - net	(2,292,306)	(2,524,763)
Total	22,025,343	22,789,713
Less current portion	(946,133)	(905,930)
Long-term obligations - net	<u>\$ 21,079,210</u>	<u>\$ 21,883,783</u>

In December 2014, the Hospital refinanced a prior note payable with the Mortgage Note in the amount of \$27,100,000 (issued at a premium of \$1,371,150). The prior note payable was issued in December 2010 to fund a building expansion and renovation construction project. The Mortgage Note is insured by the U.S. Department of Housing and Urban Development (HUD) and is secured by substantially all assets of the Hospital. Under the Mortgage Note, payments of approximately \$157,000 (including interest at 4.35%) are due monthly through September 2037.

In addition, under the Mortgage Note, the Hospital is required to make a deposit each month into a mortgage reserve fund so that such fund reaches certain scheduled year-end balances (including interest earned by the fund) growing from \$2,706,015 as of December 31, 2019 (see Note 2) to a maximum of approximately \$3,765,000 as of December 31, 2022. The mortgage reserve fund schedule (based on estimated interest earnings) anticipates that no monthly deposits will be required from 2023 through 2028. Beginning in 2029, the mortgage reserve fund can be reduced (i.e., the Hospital can begin withdrawing amounts from the fund) in accordance with the mortgage reserve fund schedule such that no balance will remain as of December 31, 2037.

The Mortgage Note may be prepaid in whole or in part through January 31, 2024 with a prepayment penalty of 10%, from February 1, 2024 through January 31, 2025 with a prepayment penalty of 1%, and with no penalty after January 31, 2025. The Mortgage Note and related agreements with HUD include requirements to meet certain financial and operating covenants. A regulatory agreement (the Regulatory Agreement) between the Hospital and HUD relating to the Mortgage Note requires the Hospital to annually report certain financial ratios. As of and for the year ended December 31, 2019, Management has calculated these ratios (each as defined in the Regulatory Agreement) to be as follows: (1) debt service coverage ratio of approximately 2.5, (2) current ratio of approximately 2.4, (3) average payment period of approximately 48.0 days, and (4) equity financing ratio of approximately 42.8%. Also, according to the Regulatory Agreement, the Board is required to provide HUD with a written report as to what measures are being taken to improve the Hospital's operations if the Hospital's operating loss exceeds 1.0% of total revenue, the Hospital's excess of revenue over expenses is negative, or the mortgage reserve fund has not been funded in accordance with the mortgage reserve fund schedule.

Required principal payments on long-term obligations for the five years subsequent to December 31, 2019, and thereafter, are approximately as follows:

2020	\$ 946,000
2021	988,000
2022	1,032,000
2023	1,012,000
2024	1,057,000
Thereafter	18,397,000
Total	<u>\$ 23,432,000</u>

# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

### 5. Patient Care Service Revenue

Patient care service revenue for the year ended December 31, 2019, based on an allocation of the estimated transaction price with the patient by primary payor, was as follows:

Medicare	\$ 20,418,134
Medicaid and OHP	9,055,550
Regence BlueCross BlueShield of Oregon	9,898,084
Other third-party payors	16,506,697
Self-pay	866,141
Patient care service revenue	<u>\$ 56,744,606</u>

Patient care service revenue for the year ended December 31, 2019, based on the nature of services provided and timing of revenue recognition, was as follows:

Inpatient – recognized over time	\$ 16,012,186
Outpatient – recognized at a point in time	40,732,420
Patient care service revenue	<u>\$ 56,744,606</u>

Patient care service revenue, net of contractual allowances and discounts (but before the provision for bad debts) by primary payor, was as follows for the year ended December 31, 2018 (consistent with the presentation prior to the adoption of ASC 606 on January 1, 2019):

Medicare	\$ 17,671,405
Medicaid and OHP	8,972,909
Regence BlueCross BlueShield of Oregon	7,699,094
Other third-party payors	15,929,409
Self-pay	3,221,526
Patient care service revenue - net of contractual allowances and discounts	<u>\$ 53,494,343</u>

Management estimates that the net cost of charity care provided was approximately \$265,000 and \$244,000 for the years ended December 31, 2019 and 2018, respectively. These estimates were based on the Hospital's overall ratio of cost to charges in each year. For each of the years ended December 31, 2019 and 2018, approximately 2.1% of all inpatient admissions and outpatient visits were classified as charity care. The largest proportion of services provided on a charity care basis was for emergency room and surgical services.

### 6. Functional Classification of Expenses

Expenses on a functional basis for the years ended December 31, 2019 and 2018 were as follows:

	Health Care Services			Support Services	Total
	Acute	Ambulatory	Clinics	MG&A	
<b>2019</b>					
Salaries and benefits	\$ 11,293,273	\$ 8,925,306	\$ 11,858,348	\$ 4,261,343	\$ 36,338,270
Purchased services	496,212	2,664,108	60,988	828,452	4,049,760
Supplies	1,798,690	3,106,001	891,343	745,623	6,541,657
Depreciation	640,564	1,508,740	341,471	60,442	2,551,217
Provider tax expense	406,188	1,126,248	240,020	73,852	1,846,308
Community relations	-	-	-	687,592	687,592
Repairs and maintenance	86,148	395,054	2,003	617	483,822
Utilities	88,416	245,152	64,892	171,699	570,159
Interest	259,435	719,344	153,303	47,170	1,179,252
Insurance	120,912	335,256	71,448	21,984	549,600
Other	361,216	366,376	1,093,070	728,854	2,549,516
	<u>\$ 15,551,054</u>	<u>\$ 19,391,585</u>	<u>\$ 14,776,886</u>	<u>\$ 7,627,628</u>	<u>\$ 57,347,153</u>

# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Notes to Consolidated Financial Statements Years Ended December 31, 2019 and 2018

	Health Care Services			Support Services	Total
	Acute	Ambulatory	Clinics	MG&A	
<b>2018</b>					
Salaries and benefits	\$ 10,379,000	\$ 8,439,141	\$ 11,160,598	\$ 3,901,316	\$ 33,880,055
Purchased services	1,353,960	2,261,011	23,888	578,740	4,217,599
Supplies	1,928,347	3,657,882	805,069	365,337	6,756,635
Depreciation	606,330	1,204,214	317,064	88,346	2,215,954
Provider tax expense	346,189	959,888	204,566	62,943	1,573,586
Community relations	-	-	-	712,672	712,672
Repairs and maintenance	83,242	391,768	4,642	18,503	498,155
Utilities	91,861	254,706	54,282	16,702	417,551
Interest	268,965	745,765	158,934	48,903	1,222,567
Insurance	81,301	238,692	70,298	16,463	406,754
Other	157,923	404,739	1,359,790	1,228,462	3,150,914
	<u>\$ 15,297,118</u>	<u>\$ 18,557,806</u>	<u>\$ 14,159,131</u>	<u>\$ 7,038,387</u>	<u>\$ 55,052,442</u>

The accompanying consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, interest, and other occupancy costs, are allocated to a function based on a square footage or units of service basis. Allocated health care services cost not allocated on a units of service basis are otherwise allocated based on revenue.

### 7. Retirement Plan

The Hospital maintains a tax-deferred retirement savings plan (the 401(k) Plan) which is available to all employees who are regularly scheduled to work at least twenty hours per week and are age nineteen or older. Employees are automatically enrolled to defer a portion of their earnings on a pre-tax basis through contributions to the 401(k) Plan. Participants who have completed one year of service are also eligible to receive Hospital contributions. For eligible participants, the Hospital may elect to match participant contributions. During the years ended December 31, 2019 and 2018, the Hospital elected to match 100% of participant contributions up to 2% and 4%, respectively, of the participant's compensation. Employees are immediately vested in their own contributions and the Hospital's contributions. Total expense incurred by the Hospital related to the 401(k) Plan during the years ended December 31, 2019 and 2018 was approximately \$474,000 and \$891,000, respectively.

### 8. Commitments and Contingencies

#### Medical malpractice insurance

The Hospital has a claims-made basis medical malpractice insurance policy. Under this policy, medical malpractice claims reported by the Hospital to the insurance company during the policy period are covered; however, any medical malpractice claim that has been incurred but not reported (IBNR) to the insurance company during the policy period is not covered. The Hospital has recorded estimated liabilities for reported and IBNR medical malpractice claims which aggregated approximately \$150,000 and \$628,000 as of December 31, 2019 and 2018, respectively, and are included in other noncurrent liabilities in the accompanying consolidated balance sheets. In addition, as of December 31, 2018, other noncurrent assets - net in the accompanying 2018 consolidated balance sheet include an estimated receivable from the Hospital's insurance carrier of approximately \$478,000. Management believes that the estimated liabilities for reported and IBNR medical malpractice claims are adequate; however, the establishment of estimated liabilities for reported and IBNR medical malpractice claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact the Hospital's reported results of operations in future periods.

# **Santiam Memorial Hospital and Subsidiary dba Santiam Hospital**

## **Notes to Consolidated Financial Statements**

**Years Ended December 31, 2019 and 2018**

### **Self-insured health and dental claims**

The Hospital is self-insured for health and dental benefits provided to its employees (and employees' eligible family members). In conjunction with the self-insured health plan, the Hospital purchases stop-loss insurance which generally limits the Hospital's liability to \$100,000 per covered individual per year. Such benefits are provided through the Santiam Memorial Hospital Health Plan (the Health Plan) (a revocable trust fund), which is administered by a third-party administrator. The provision and accrual for estimated claims include estimates of the ultimate costs for both reported claims and IBNR claims and are based upon the estimated costs of settlement. As of December 31, 2019 and 2018, the Hospital has recorded estimated liabilities for reported and IBNR employee health and dental claims aggregating approximately \$786,000 and \$497,000, respectively, which are included in other accrued liabilities in the accompanying consolidated balance sheets. Management believes that these estimated liabilities are adequate to cover any related potential losses; however, the establishment of estimated liabilities for IBNR health and dental claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact the Hospital's reported results of operations in future periods. The Hospital's consolidated financial statements do not include the accounts of the Health Plan, as such accounts are not significant to the Hospital's consolidated financial statements.

### **Risk management**

In the ordinary course of business, the Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; cyber-attacks; errors and omissions; employee injuries and illnesses; and natural disasters. However, Management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the years ended December 31, 2019 and 2018.

### **Regulation and litigation**

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

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

# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

### 9. Fair Value Measurements

GAAP defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. The hierarchy of fair value valuation techniques under GAAP provides for three levels ranging from Level 1 – which provides the most reliable measure of fair value – to Level 3 which, if applicable, generally would require significant management judgment. The three levels for categorizing assets and liabilities under GAAP's fair value measurement requirements are as follows:

- Level 1: Fair value of the asset or liability is determined using observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2: Fair value of the asset or liability is determined using inputs other than quoted prices that are observable for the applicable asset or liability, either directly or indirectly, such as quoted prices for similar (as opposed to identical) assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and
- Level 3: Fair value of the asset or liability is determined using unobservable inputs that are significant to the fair value measurement and reflect the organization's own assumptions regarding the applicable asset or liability.

An asset's or liability's fair value measurement level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

As of December 31, 2019 and 2018, the Hospital's financial assets measured at fair value on a recurring basis were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2019</b>				
Assets limited as to use	\$ 3,696,449	\$ -	\$ -	\$ 3,696,449
Long-term investments	2,742,579	-	-	2,742,579
	<u>\$ 6,439,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,439,028</u>
<b>2018</b>				
Assets limited as to use	\$ 3,399,442	\$ -	\$ -	\$ 3,399,442
Long-term investments	2,519,379	-	-	2,519,379
	<u>\$ 5,918,821</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,918,821</u>



5885 Meadows Road, No. 200 / Lake Oswego, OR 97035 / 503.697.4118 / delapcpa.com

## **Independent Auditors' Report on Supplementary Information**

---

To the Board of Directors of  
Santiam Memorial Hospital,  
dba Santiam Hospital

We have audited the consolidated financial statements of Santiam Memorial Hospital and subsidiary, collectively doing business as "Santiam Hospital," as of and for the years ended December 31, 2019 and 2018, and our report thereon dated April 6, 2020, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information, as listed in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*DELAP LLP*

April 6, 2020



# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Summary of Operations

Years Ended December 31, 2019 and 2018

### Comparative Summary

The following schedule compares operations for the years ended December 31, 2019 and 2018. The per adjusted patient day amounts include both inpatient and outpatient revenue and expenses and include an adjustment to patient days for the effect of outpatient revenue:

	2019			2018			2019 as Compared to 2018	
	Amount	Per Adjusted Patient Day	% of Total Revenue	Amount	Per Adjusted Patient Day	% of Total Revenue	Increase (Decrease)	% Increase (Decrease)
Revenue								
Patient care service revenue before provision for bad debts				\$ 53,494,343	\$ 4,037	103 %		
Provision for bad debts				(3,115,995)	(235)	(6)		
Patient care service revenue	\$ 56,744,606	\$ 3,824	97 %	50,378,348	3,802	97	\$ 6,366,258	13 %
Other revenue	1,787,033	121	3	1,668,276	126	3	118,757	7
Total revenue	58,531,639	3,945	100	52,046,624	3,928	100	6,485,015	12
Expenses								
Salaries, payroll taxes, and employee benefits	36,338,270	2,449	62	33,880,055	2,557	65	2,458,215	7
Other operating departments' expenses	10,778,769	726	18	11,661,981	880	23	(883,212)	(8)
Other service departments' expenses	1,410,977	95	2	1,407,239	106	3	3,738	-
Other expenses	5,088,668	343	9	4,664,646	352	9	424,022	9
Interest	1,179,252	80	2	1,222,567	92	2	(43,315)	(4)
Depreciation	2,551,217	172	5	2,215,954	168	4	335,263	15
Total expenses	57,347,153	3,865	98	55,052,442	4,155	106	2,294,711	4
<b>Operating Income (Loss)</b>	<b>\$ 1,184,486</b>	<b>\$ 80</b>	<b>2 %</b>	<b>\$ (3,005,818)</b>	<b>\$ (227)</b>	<b>(6) %</b>	<b>\$ 4,190,304</b>	<b>(139) %</b>
Total patient days, excluding newborns and swing beds		3,371			3,135			
Total adjusted patient days, excluding newborns and swing beds		14,838			13,249			

The independent auditors' report on supplementary information should be read with the supplementary schedules.

# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Gross Patient Care Service Revenue

Years Ended December 31, 2019 and 2018

	2019			2018		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Daily patient revenue						
Nursing	\$ 4,298,656	\$ 1,023,603	\$ 5,322,259	\$ 4,419,413	\$ 650,829	\$ 5,070,242
Intensive care unit	2,517,952	-	2,517,952	1,625,674	-	1,625,674
Nursery	185,096	-	185,096	153,878	-	153,878
Medical/surgical	65,665	467,236	532,901	33,778	348,014	381,792
	<u>7,067,369</u>	<u>1,490,839</u>	<u>8,558,208</u>	<u>6,232,743</u>	<u>998,843</u>	<u>7,231,586</u>
Other nursing services						
Surgery and recovery room	4,405,333	9,216,797	13,622,130	4,265,269	8,813,249	13,078,518
Labor and delivery	420,877	63,599	484,476	485,682	76,530	562,212
Emergency	1,934,756	18,885,783	20,820,539	1,860,688	15,442,437	17,303,125
SHOTS	-	2,247,076	2,247,076	-	2,256,652	2,256,652
	<u>6,760,966</u>	<u>30,413,255</u>	<u>37,174,221</u>	<u>6,611,639</u>	<u>26,588,868</u>	<u>33,200,507</u>
Other professional services						
Laboratory	2,479,588	11,762,817	14,242,405	2,013,221	8,818,275	10,831,496
Radiology	2,597,162	23,179,778	25,776,940	3,586,102	22,337,239	25,923,341
Pharmacy	2,441,870	3,690,324	6,132,194	2,195,522	2,667,573	4,863,095
Hospitalists	1,097,452	246,539	1,343,991	959,459	115,765	1,075,224
Anesthesiology	266,973	798,497	1,065,470	239,257	776,296	1,015,553
Respiratory therapy	3,845,411	1,547,375	5,392,786	3,092,133	1,102,465	4,194,598
Physical therapy	346,393	55,012	401,405	202,049	30,990	233,039
Nutritional therapy	-	54,499	54,499	-	15,840	15,840
Ambulance	-	3,213,363	3,213,363	-	3,548,742	3,548,742
Clinics	-	15,064,380	15,064,380	-	14,078,430	14,078,430
	<u>13,074,849</u>	<u>59,612,584</u>	<u>72,687,433</u>	<u>12,287,743</u>	<u>53,491,615</u>	<u>65,779,358</u>
<b>Total Gross Patient Care Service Revenue</b>	<u>\$ 26,903,184</u>	<u>\$ 91,516,678</u>	<u>\$ 118,419,862</u>	<u>\$ 25,132,125</u>	<u>\$ 81,079,326</u>	<u>\$ 106,211,451</u>

The independent auditors' report on supplementary information should be read with the supplementary schedules.

# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Operating Departments' Expenses Years Ended December 31, 2019 and 2018

	2019			2018		
	Salaries, Benefits, and Payroll Taxes	Other	Total	Salaries, Benefits, and Payroll Taxes	Other	Total
Daily patient services						
Nursing	\$ 6,574,045	\$ 380,281	\$ 6,954,326	\$ 6,257,955	\$ 206,394	\$ 6,464,349
Intensive Care Unit	154,151	27,842	181,993	138,321	9,010	147,331
Nursery	-	56,940	56,940	-	62,961	62,961
Medical/surgical	-	115,328	115,328	-	373,714	373,714
	<u>6,728,196</u>	<u>580,391</u>	<u>7,308,587</u>	<u>6,396,276</u>	<u>652,079</u>	<u>7,048,355</u>
Other nursing services						
Surgery and recovery room	1,582,804	1,242,425	2,825,229	1,579,259	1,209,648	2,788,907
Labor and delivery	63,908	136,122	200,030	2,558	178,035	180,593
Emergency	664,686	2,429,793	3,094,479	759,402	2,283,496	3,042,898
SHOTS	377,262	95,635	472,897	462,030	347,298	809,328
	<u>2,688,660</u>	<u>3,903,975</u>	<u>6,592,635</u>	<u>2,803,249</u>	<u>4,018,477</u>	<u>6,821,726</u>
Other professional services						
Laboratory	1,613,960	1,520,279	3,134,239	1,465,162	1,395,531	2,860,693
Radiology	2,672,620	586,747	3,259,367	2,668,036	927,880	3,595,916
Pharmacy	922,675	1,280,614	2,203,289	777,819	796,506	1,574,325
Hospitalists	1,463,834	276,521	1,740,355	702,263	1,129,926	1,832,189
Anesthesiology	1,285,620	85,674	1,371,294	1,316,160	103,512	1,419,672
Respiratory therapy	708,777	81,364	790,141	632,613	111,334	743,947
Physical therapy	-	101,694	101,694	-	108,425	108,425
Ambulance	716,098	227,505	943,603	656,934	238,196	895,130
Clinics	11,795,322	2,134,005	13,929,327	11,097,362	2,180,115	13,277,477
	<u>21,178,906</u>	<u>6,294,403</u>	<u>27,473,309</u>	<u>19,316,349</u>	<u>6,991,425</u>	<u>26,307,774</u>
<b>Total Operating Departments' Expenses</b>	<u>\$ 30,595,762</u>	<u>\$ 10,778,769</u>	<u>\$ 41,374,531</u>	<u>\$ 28,515,874</u>	<u>\$ 11,661,981</u>	<u>\$ 40,177,855</u>

The independent auditors' report on supplementary information should be read with the supplementary schedules.

# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Service Departments' Expenses and Administrative and General Expenses

Years Ended December 31, 2019 and 2018

	2019			2018		
	Salaries, Benefits, and Payroll Taxes	Other	Total	Salaries, Benefits, and Payroll Taxes	Other	Total
Service departments' expenses						
Medical records	\$ 916,785	\$ 179,918	\$ 1,096,703	\$ 823,146	\$ 119,655	\$ 942,801
Dietary and cafeteria	656,852	404,803	1,061,655	612,626	413,296	1,025,922
Operation and maintenance of plant	484,810	711,121	1,195,931	486,419	726,484	1,212,903
Environmental services	510,693	36,562	547,255	499,715	77,113	576,828
Laundry and linen	-	78,573	78,573	-	70,691	70,691
<b>Total Service Departments' Expenses</b>	<b>\$ 2,569,140</b>	<b>\$ 1,410,977</b>	<b>\$ 3,980,117</b>	<b>\$ 2,421,906</b>	<b>\$ 1,407,239</b>	<b>\$ 3,829,145</b>

  

	2019	2018
Administrative and general expenses		
Salaries and wages	2,120,111	2,082,222
Employee benefits	903,688	661,625
Payroll taxes	149,569	198,428
Provider tax expense	1,846,308	1,573,586
Professional fees	828,452	578,740
Community relations	687,592	712,672
Office supplies and rental	579,068	931,313
Insurance and bonding	370,310	360,817
Electronic health records training and consulting	316,046	19,571
Physician	194,205	105,030
Telephone	155,623	146,344
Postage and stationery	45,178	169,536
Education	8,696	8,154
Other	57,190	58,883
<b>Total Administrative and General Expenses</b>	<b>\$ 8,262,036</b>	<b>\$ 7,606,921</b>

The independent auditors' report on supplementary information should be read with the supplementary schedules.



5885 Meadows Road, No. 200 / Lake Oswego, OR 97035 / 503.697.4118 / delapcpa.com

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

---

To the Board of Directors of  
Santiam Memorial Hospital,  
dba Santiam Hospital

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 consolidated financial statements of Santiam Memorial Hospital (an Oregon nonprofit corporation) and subsidiary, collectively doing business as "Santiam Hospital" (the Hospital), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of operations and changes in net assets without donor restrictions, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 6, 2020.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 consolidated 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 the Hospital's consolidated 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 determination of consolidated financial statement amounts. 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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DELAP LLP

Lake Oswego, Oregon  
April 6, 2020



5885 Meadows Road, No. 200 / Lake Oswego, OR 97035 / 503.697.4118 / delapcpa.com

## **Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance**

---

To the Board of Directors of  
Santiam Memorial Hospital,  
dba Santiam Hospital

### **Report on Compliance for Each Major Federal Program**

We have audited the compliance of Santiam Memorial Hospital and subsidiary, collectively doing business as "Santiam Hospital" (the Hospital), with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2019. The Hospital's major federal programs are identified in the summary of auditors' 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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the Hospital'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* (the 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 the Hospital'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 the Hospital's compliance.

#### *Opinion on Each Major Federal Program*

In our opinion, the Hospital 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 December 31, 2019.



## Report on Internal Control over Compliance

Management of the Hospital 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 the Hospital'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 the Hospital'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

DELAP LLP

Lake Oswego, Oregon  
April 6, 2020



# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Pass-through Entity Identifying Number	Federal CFDA Number	Provided to Subrecipients	Total Federal Expenditures
<b>U.S. Department of Housing and Urban Development</b>				
Section 242 - Mortgage Insurance for Hospitals	n/a	14.128	\$ -	\$ 24,101,932
<b>Total expenditures of federal awards</b>			<u>\$ -</u>	<u>\$ 24,101,932</u>

See accompanying notes to schedule of expenditures of federal awards.

# **Santiam Memorial Hospital and Subsidiary dba Santiam Hospital**

## **Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2019**

### **1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Santiam Memorial Hospital and subsidiary, collectively doing business as "Santiam Hospital" (the Hospital), under programs of the federal government for the year ended December 31, 2019. The information in the 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* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to, and does not, present the consolidated balance sheet, statement of operations and changes in net assets without donor restrictions, or cash flows of the Hospital.

### **2. Summary of Significant Accounting Policies**

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

### **3. Indirect Cost Rate**

The Hospital elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

### **4. Loan Guarantee Program**

The United States Department of Housing and Urban Development has insured certain mortgage loan borrowings undertaken by the Hospital in connection with capital projects and has imposed continuing compliance requirements. The balance of the insured loan and the related transactions are reported in the Hospital's basic consolidated financial statements. The guaranteed loan was fully drawn down in December 2014 and remains outstanding as of December 31, 2019. The outstanding balance of the guaranteed loan at the beginning of 2019 totaling \$24,101,932 is included in the federal expenditures presented in the Schedule.

The outstanding balance of the guaranteed loan totaled \$23,251,197 as of December 31, 2019.

# Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

## Schedule of Findings and Questioned Costs

Year Ended December 31, 2019

### Section 1 - Summary of Auditors' Results

#### *Consolidated Financial Statements*

1. Type of auditors' report issued on whether the audited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America - **unmodified**
2. Significant deficiency(ies) in internal control identified in the audit of the consolidated financial statements - **none reported**
3. Material weakness(es) in internal control identified in the audit of the consolidated financial statements - **none**
4. Noncompliance that is material to the consolidated financial statements noted - **none**

#### *Federal Awards*

5. Significant deficiency(ies) in internal control over major federal programs identified in the audit - **none reported**
6. Material weakness(es) in internal control over major federal programs identified in the audit - **none**
7. The type of auditors' report issued on compliance for major federal programs - **unmodified**
8. Audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) - **none**

#### *Identification of Major Federal Programs*

- **U.S. Department of Housing and Urban Development, Section 242 - Mortgage Insurance for Hospitals (CFDA No. 14.128)**
9. Dollar threshold used to distinguish between Type A and Type B programs - **\$750,000**
  10. Is the auditee qualified as a low-risk auditee under 2 CFR 200.520? - **yes**

### Section 2 – Consolidated Financial Statement Findings

11. Findings relating to the consolidated financial statements reported in accordance with *Government Auditing Standards* - **none**

### Section 3 - Federal Award Findings and Questioned Costs

12. Findings and questioned costs relating to federal awards - **none**

**Santiam Memorial Hospital and Subsidiary  
dba Santiam Hospital**

**Summary Schedule of Prior Audit Findings**

**Year Ended December 31, 2019**

There were no findings reported in the prior audit.