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Bay Area Hospital

Annual Report

Years Ended June 30, 2020 and 2019

Bay Area Health District, dba Bay Area Hospital

Organization

June 30, 2020

Members of the Board of Directors as of July 1, 2020 are:

Ms. Lynn Menashian P.O. Box 1238 North Bend, OR 97459	-	Chairperson
Mr. Thomas F. McAndrew, M.D. 1900 Woodland Drive Coos Bay, OR 97420	-	Vice-Chairperson
Ms. Donna Rabin, M.D. 636 13th Avenue Coos Bay, OR 97420	-	Secretary
Ms. Barbara Taylor 2493 Troy Lane North Bend, OR 97459	-	Treasurer
Mr. Mark Sheldon 95204 Stock Slough Lane North Bend, OR 97420	-	Member-at-Large
Ms. Patty Scott 1988 Newmark Avenue Coos Bay, OR 97420	-	Member-at-Large

Bay Area Health District has designated the following registered agent and office as of July 1, 2020:

Registered agent	-	Mr. Brian Moore
Registered office	-	Bay Area Hospital 1775 Thompson Road Coos Bay, OR 97420

Bay Area Health District, dba Bay Area Hospital

TABLE OF CONTENTS

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Independent Auditors' Report

To the Board of Directors of
Bay Area Health District, dba Bay Area Hospital

Report on the Financial Statements

We have audited the accompanying financial statements of Bay Area Health District, dba Bay Area Hospital (the Hospital), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S. and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Bay Area Health District, dba Bay Area Hospital, as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S. require that the management's discussion and analysis on pages 3 through 10 and schedules of changes in net pension asset (liability) and related ratios for the Defined Benefit Plan, contributions to the Defined Benefit Plan, and changes in total OPEB liability and related ratios for the Health Plan on pages 40 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on page 43 is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the U.S. In our opinion, the information is fairly stated, in all material respects, in relation to the basic 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 November 5, 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
Certified Public Accountants

Steven A. Evans, CPA
Partner

November 5, 2020

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2020 and 2019

Management's discussion and analysis of Bay Area Health District's, dba Bay Area Hospital's (the Hospital's), financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2020 and 2019. Please read it in conjunction with the Hospital's financial statements, which begin on page 11. Due to the significant impact of the COVID-19 pandemic and related relief from the federal government on the financial results of the Hospital late in fiscal year 2020, we have begun this management's discussion and analysis with a brief summary of this impact.

COVID-19 pandemic and the CARES Act

In January 2020, the Secretary of the U.S. Department of Health and Human Services (HHS) declared a national public health emergency due to a novel strain of coronavirus (COVID-19). The global pandemic caused by COVID-19 (the COVID-19 pandemic) has significantly affected the Hospital's facilities, employees, patients, community, business operations, and financial performance, as well as the U.S. economy and financial markets. Due in part to local, state, and federal guidelines (as well as recommendations from major medical societies); social distancing; and self-quarantines in response to the COVID-19 pandemic, beginning in March 2020, the COVID-19 pandemic began to negatively affect the Hospital's net revenue and business operations. Specifically, for the period from March 18, 2020 to May 11, 2020, the Hospital temporarily ceased performing many elective medical procedures, and the Hospital's surgical case volumes decreased significantly. In addition, during this period, the Hospital temporarily furloughed approximately 6.5% of its employees, mandated time off for salaried employees, and restricted capital purchases. Although the Hospital cannot provide any certainty regarding the length and severity of the impact of the COVID-19 pandemic, surgical case volumes gradually improved throughout the summer as the State of Oregon (Oregon) and local governments began to re-open and allow for non-emergent procedures. The Hospital's operating structure enables some flexibility in the cost structure according to the volume of surgical procedures performed, including much of its cost of revenues. In addition to the natural variability of these costs, the Hospital has undertaken additional steps to preserve financial flexibility. Beginning in March 2020, and through June 2020, the Hospital took actions that included significantly reducing cash operating expenses and deferring non-essential expenditures at the height of the crisis.

The impact of the COVID-19 pandemic on the Hospital's future 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, employees, and vendors. The extent to which COVID-19 may impact the Hospital's future financial condition or results of operations is uncertain and cannot be reasonably estimated at this time.

In March 2020, the U.S. Congress passed the *Coronavirus Aid, Relief and Economic Security Act* (the CARES Act) which, among other things, provided certain relief to health care providers. In April and May 2020, the Hospital received aggregate grants of approximately $11.3 million from HHS under the CARES Act. Payments received from these grants (i.e., "Provider Relief Funds") are not required to be repaid provided that the recipient attests to and complies with certain terms and conditions, including limitations on balance billing and not using funds received from the grants to reimburse expenses or losses that other sources are obligated to reimburse. The recognition of amounts received as revenue is conditioned upon certification that funds will be used to prevent, prepare for, and respond to the COVID-19 pandemic and shall reimburse the recipient only for health care-related expenses or lost revenues that are attributable to the COVID-19 pandemic. Amounts are recognized as non-operating revenue only to the extent that the Hospital is reasonably assured that underlying conditions are met. Based on Management's analysis, the Hospital met the requirements to recognize approximately $527,000 of such grant funds as revenue during the year ended June 30, 2020, which is recorded as government stimulus income in the 2020 statement of revenue, expenses, and changes in net position. As of June 30, 2020, the remaining unrecognized amount of such funds was approximately $10.8 million and is recorded in current liabilities as deferred government stimulus grants in the 2020 statement of net position. Based on COVID-19 related expenditures and/or lost revenues that are attributable to the COVID-19 pandemic in the year ending June 30, 2021, Management will evaluate the extent that such remaining unrecognized amount will be recorded as nonoperating revenue in fiscal year 2021. The current guidance governing the reporting of COVID-19 related expenditures and/or lost revenues that are attributable to the COVID-19 pandemic is vague and subject to interpretation. In addition, the guidance has been modified several times since the Provider Relief Funds have been distributed.

In addition, the CARES Act provides for an expansion of the Medicare Accelerated and Advance Payment Program (the Advance Payment Program), whereby inpatient acute care hospitals and other eligible providers may request accelerated payment of up to 100% of their Medicare payment amount for a six-month period.

These accelerated payments are required to be repaid to Medicare through withholding of future Medicare fee-for-service payments beginning one year after receipt of the advance payments by the Hospital. During the year ended June 30, 2020, the Hospital received approximately $31.0 million of such expanded payments under the Advance Payment Program. As of June 30, 2020, the Hospital had not returned any such payments to Medicare through withholding from subsequent Medicare payments to the Hospital, and all such amounts received under the Advance Payment Program are recorded as Medicare accelerated payments in the 2020 statement of net position (with an estimated breakdown by Management between current and noncurrent liabilities).

Financial highlights

- The Hospital's net position of approximately $188.1 million as of June 30, 2020 increased by approximately $6.1 million or 3.3% during fiscal year 2020 and increased by approximately $11.1 million or 6.5% during fiscal year 2019.

- In fiscal year 2020, actual gross patient service revenue was less than budgeted gross patient service revenue by approximately $16.0 million, and net patient service revenue increased from fiscal year 2019 by approximately $3.4million. In fiscal year 2019, actual gross patient service revenue was greater than budgeted gross patient service revenue by approximately $3.2 million, and net patient service revenue increased from fiscal year 2018 by approximately $1.7 million.

- The Hospital reported operating income of approximately $221,000, $6.5 million, and $10.0 million in fiscal years 2020, 2019, and 2018, respectively.

- Total nonoperating revenue - net was approximately $5.8 million in fiscal year 2020 and approximately $4.5 million in fiscal year 2019. The change from fiscal year 2019 to fiscal year 2020 was primarily due to an increase in net investment income of approximately $340,000, an increase in noncapital grants of approximately $368,000, and the recognition of government stimulus income in 2020 of approximately $527,000. The net investment income was incurred on the Hospital's fixed-income investment portfolio, the composition of which is dictated by State of Oregon (State) regulations. Total nonoperating expenses - net were approximately $2.0 million in fiscal year 2018. The change from fiscal year 2018 to fiscal year 2019 was primarily due to net investment income of approximately $4.4 million in 2019 compared to a net investment loss of approximately $339,000 in 2018. In addition, 2018 included a loss related to the dissolution of Population Health Alliance of Oregon, LLC, dba Propel Health, of approximately $1.8 million, which was a one-time item.

Using this annual report

The Hospital's financial statements consist of three statements – a statement of net position; a statement of revenue, expenses, and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the financial activities of the Hospital.

The statement of net position and statement of revenue, expenses, and changes in net position

The statement of net position and the statement of revenue, expenses, and changes in net position report information about the Hospital's resources and its activities in a way that helps the user decide if the Hospital as a whole is better or worse off as a result of the year's activities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in net position from the prior year. You can think of the Hospital's net position – the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources – as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service that it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

The statement of cash flows

This statement reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operating activities, noncapital financing activities (if applicable), capital and related financing activities, and investing activities. It provides answers to such questions as "Where did cash come from?," "What was cash used for?," and "What was the change in the cash balance during the reporting period?"

The Hospital's net position

The Hospital's net position is the difference between (1) its assets plus deferred outflows of resources and (2) its liabilities plus deferred inflows of resources, as reported in the statement of net position on pages 11 and 12. The Hospital's net position increased by approximately $6.1 million (3.3%) in fiscal year 2020 and increased by approximately $11.1 million (6.5%) in fiscal year 2019, as you can see from Tables 1 and 2 below.

Table 1: Assets, liabilities, and net position

	June 30,		
	2020	2019	2018
Assets			
Current assets	$ 69,002,716	$ 52,883,955	$ 47,356,389
Assets limited as to use	111,487,709	76,210,344	71,623,571
Total capital assets - net	78,273,517	81,186,253	82,094,085
Other noncurrent assets	749,056	788,168	2,231,929
Total assets	259,512,998	211,068,720	203,305,974
Deferred outflows of resources	7,227,554	5,338,557	5,161,582
Total assets and deferred outflows of resources	266,740,552	216,407,277	208,467,556
Liabilities			
Long-term debt - net of current portion	3,864,722	5,501,787	7,237,017
Other current and noncurrent liabilities	72,788,367	26,231,625	25,433,525
Total liabilities	76,653,089	31,733,412	32,670,542
Deferred inflows of resources	2,001,478	2,683,205	4,940,239
Total liabilities and deferred inflows of resources	78,654,567	34,416,617	37,610,781
Net position			
Net investment in capital assets	73,288,673	74,594,904	73,794,702
Unrestricted	114,797,312	107,395,756	97,062,073
Total net position	$ 188,085,985	$ 181,990,660	$ 170,856,775

Total assets and deferred outflows of resources increased approximately $50.3 million from June 30, 2019 to June 30, 2020 primarily due to increases in net patient accounts receivable and assets limited as to use of approximately $8.2 million and $49.9 million, respectively; offset by a decrease in cash and cash equivalents of approximately $8.0 million, and a decrease in net capital assets of $2.9 million. The increase in net patient accounts receivable was primarily due to a large increase that occurred after the COVID-19 shutdown of elective cases, as many deferred procedures were scheduled in late May and June 2020. Assets limited as to use increased due to favorable investment performance as well as receipt of the aforementioned Provider Relief Funds and the Advanced Payment Program funds. The decrease in cash and cash equivalents was due to COVID-19 related volume reductions, as well as the slow-down in collections of patient accounts receivable. Finally, the decrease in net capital assets is a result of routine depreciation of capital assets, as well as more restricted capital budgets the past two years.

The Hospital's total long-term debt (including current and non-current portions) decreased from approximately $6.6 million as of June 30, 2019 to approximately $5.0 million as of June 30, 2020 due to the Hospital making its scheduled principal payments on long-term debt, as well as making payments on its long-term line of credit of approximately $513,000. The Hospital's other current and noncurrent liabilities increased approximately $46.6 million primarily due to the receipt of the Provider Relief Funds, most of which is recorded as deferred government

stimulus grants as of June 30, 2020; the Medicare accelerated payments of approximately $31.0 million which are also carried as liabilities as of June 30, 2020; and an increase in the Hospital's net pension liability of approximately $3.7 million (primarily from the interest component).

Total assets and deferred outflows of resources increased approximately $7.9 million from June 30, 2018 to June 30, 2019 primarily due to increases in cash and cash equivalents and assets limited as to use of approximately $5.3 million and $4.6 million, respectively; offset by a decrease in patient accounts receivable of approximately $1.2 million and a decrease in the net pension asset related to the Hospital's defined benefit pension plan of approximately $1.5 million. The increase in cash and cash equivalents and assets limited as to use was primarily due to favorable investment results and operating performance. The decrease in patient accounts receivable was primarily due to reduced volumes in the fourth quarter of fiscal year 2019 and increased collection activity. The decrease in the net pension asset was primarily due to increased payments to beneficiaries, as actively employed participants have dwindled significantly in the plan which has been closed to new participants since 2001.

The Hospital's total long-term obligations (including current and non-current portions) decreased from approximately $8.3 million as of June 30, 2018 to approximately $6.6 million as of June 30, 2019 due to the Hospital making its scheduled principal payments on long-term obligations, as well as making payments on its long-term line of credit of approximately $646,000.

The Hospital's net position has increased by approximately $17.2 million from June 30, 2018 to June 30, 2020, as a result of operating income of approximately $221,000 and $6.5 million in fiscal years 2020 and 2019, respectively; total nonoperating revenue - net of approximately $5.8 million and $4.5 million in fiscal years 2020 and 2019, respectively; and capital contributions from the Bay Area Health District Foundation (the Foundation) of approximately $93,000 and $121,000 in fiscal years 2020 and 2019, respectively.

Operating results and changes in the Hospital's net position

In fiscal year 2020, the Hospital's net position increased by approximately $6.1 million or 3.3%, as shown in Table 2 below. This increase is mainly due to positive investment results, as well as the recognition of Provider Relief Funds which helped to offset the COVID-19 related operating expenses that the Hospital incurred in the 2020 fiscal year. This performance in 2020 represents a deterioration from the Hospital's results in 2019 which experienced an increase in net position of approximately $11.1 million or 6.5% over the net position as of June 30, 2018.

Table 2: Operating results and changes in net position

	Years Ended June 30,		
	2020	**2019**	**2018**
Operating revenue			
Net patient service revenue	$ 188,887,322	$ 185,535,036	$ 183,842,618
Other revenue	1,616,733	1,648,409	3,152,915
Total operating revenue	190,504,055	187,183,445	186,995,533
Operating expenses			
Salaries and benefits	97,783,168	93,217,800	90,115,786
Supplies and other	54,458,015	53,542,737	52,717,856
Professional fees and purchased services	30,439,287	26,238,455	26,326,060
Depreciation	7,602,199	7,691,447	7,807,269
Total operating expenses	190,282,669	180,690,439	176,966,971
Operating income	221,386	6,493,006	10,028,562

Table 2: Operating results and changes in net position (continued)

	Years Ended June 30,		
	2020	2019	2018
Investment income (loss) - net	4,708,903	4,368,635	(339,219)
Noncapital contributions	763,357	395,298	713,822
Government stimulus income	527,004	-	-
Gains (losses) on disposals of capital assets - net	(30,551)	29,128	(332,802)
Loss on write-off of investment in related party	-	-	(1,779,318)
Interest expense	(187,646)	(273,088)	(268,736)
Total nonoperating revenue (expenses) - net	5,781,067	4,519,973	(2,006,253)
Income before capital contributions	6,002,453	11,012,979	8,022,309
Capital contributions from the Foundation	92,872	120,906	100,000
Increase in net position	6,095,325	11,133,885	8,122,309
Net position - beginning of year	181,990,660	170,856,775	162,734,466
Net position - end of year	$ 188,085,985	$ 181,990,660	$ 170,856,775

Operating income

The first component of the overall change in the Hospital's net position is its operating income – generally, the difference between net patient service revenue and the expenses incurred to perform those services. The Hospital reported operating income of approximately $221,000 in fiscal year 2020, compared to operating income of $6.5 and $10.0 million in fiscal years 2019 and 2018, respectively.

The Hospital began operations at its current location in 1974, when it was agreed that, in order to merge the two existing community hospitals into one, a tax levy for revenue bonds would be issued for the construction of a new facility. The original Board of Directors of the Hospital promised the community that once the bonds were repaid, the Hospital would be self-sufficient and would no longer require taxes for operations. The Hospital retired its original revenue bonds in 1986 and has not levied a tax to residents of the district since that time.

The Hospital's income from operations of approximately $221,000 in fiscal year 2020 compared unfavorably to the Hospital's budgeted operating income of approximately $6.0 million. This operating income in fiscal year 2020 represents a decrease from the operating income of approximately $6.5 million in fiscal year 2019. The main reasons that the operating results in fiscal year 2020 were lower than budgeted – and less than fiscal year 2019 – are:

- Hospital inpatient discharges (excluding nursery and newborns) in 2020 were down 10.2% from 2019 and 6.5% from budget. Although patient days (excluding nursery and newborns) increased 4.8% from 2019 and was 7.1% better than budget, most of this occurred prior to the COVID-19 pandemic. Volumes reduced dramatically in March and April 2020, and it was extremely difficult to place patients with post-acute providers. Given that most of the Hospital's reimbursement is DRG-based, higher lengths of stay negatively impact the Hospital’s financial performance. Elective procedures could not be performed in the Operating Room (OR) and Imaging departments. Even the Emergency Department (ED) experienced 25-30% volume decreases during those months and has yet to recover completely.
- The Hospital's total operating expenses were up 5.3% from 2019. While total salaries remained below budget, aided by COVID-19 related furloughs, expenses increased related to temporary labor, as the Hospital faced shortages in key clinical departments. The Hospital also employed locum physicians in Cardiology and General Surgery due to physician transitions. COVID-19 costs were also incurred, as the Hospital employed entrance screeners and had additional hours related to preparedness which were offset by Provider Relief Funds, as mentioned previously. Employee benefit costs increased from 2019 due to the transition of United Food and Commercial Workers Union (UFCW) members to the Hospital’s self-insured health plan. Fiscal year 2020 was the first full-year that experienced the impact of that change. There was also an increase in pension cost year over year due to weaker investment performance earned by the pension assets. Supply costs overall increased 1.7% from fiscal year 2019. Increases in levels and costs of supplies were experienced, as the Hospital was required to address much higher demand for, and supplier availability of, personal protective equipment and pharmaceuticals. This was partially offset by lower costs in OR supplies due to the elective procedure freeze.

The Hospital's income from operations of approximately $6.5 million in fiscal year 2019 compared unfavorably to the Hospital's budgeted operating income of approximately $6.8 million. This operating income in fiscal year 2019 represents a decrease from the operating income of approximately $10.0 million in fiscal year 2018. The main reasons that the operating results in fiscal year 2019 were lower than budgeted – and less than fiscal year 2018 – are:

- Hospital inpatient discharges (excluding nursery and newborns) in 2019 were down 8.9% from 2018 and 8.3% from budget. Patient days (excluding nursery and newborns) decreased 0.5% from 2018 but were even with budget. The Hospital did not experience the same significant increase in admissions related to the flu season during 2019 as experienced during 2018. There was, however, some slight growth in surgical case volumes compared to 2018. Length of stay increased due to a change in patient mix, and the Hospital continued to have difficulty in finding post-acute placement for complex patients. However, there were also some non-recurring receipts that positively impacted performance in fiscal year 2019. The Hospital previously re-opened the 2016 cost report to capture additional dollars related to prior year bad debt write-offs. This cost report was settled and closed in fiscal year 2019, and the Hospital was awarded a $1.1 million settlement as a result of this re-opening. In addition, the Hospital received an additional $1.4 million in "DSH3" payments related to the Medicaid program.
- The Hospital's total operating expenses were up 2.1% from 2018. The hospital experienced significant increases in salaries including contract labor. The Hospital settled three union negotiations (UFCW, Oregon Nurses Association (ONA), and Teamsters) during the year. The settlement of the UFCW contract resulted in a significant increase in salary cost. UFCW union workers received a 10% increase in pay to supplement and offset the prior three years with no increases. This increase in salary cost was partially offset by a reduction in benefit costs paid to the UFCW union. UFCW employees transitioned to the Hospital's self-insured health plan effective January 1, 2019. With respect to contract labor cost, the Hospital experienced staffing shortages, particularly through the winter. There was a significant amount spent on traveler nurses to fill vacant positions in specialty areas like the OR and the ED. Recruitment to those areas continued to be difficult. Limiting increases in supply costs, specifically for specialty drugs, continued to be a challenge, but due to an affiliation with a new purchasing aggregation group, the Hospital was able to realize significant savings for certain specialty dugs, including credits for previous purchases. As a result, drug costs increased only $362,000 in 2019. The Hospital currently participates in two health insurance plans. Members of the Teamsters union are covered under the Teamsters health plan, while all other employees participate in the Hospital's self-insured plan. As mentioned previously, the UFCW bargaining unit transitioned to the Hospital self-insured health plan effective January 1, 2019, and there was also an agreement to provide for a "rate holiday" over the latter part of the calendar year 2018 to spend down a projected excess reserve in the UFCW plan trust. This was done in exchange for the agreed-upon wage increases in the contract. The net effect of this rate holiday was approximately $2 million in fiscal year 2019. Finally, provider taxes increased from 2018 as a function of the increase in net patient service revenue for 2019. A portion of the provider tax reflects an unreimbursed amount of 0.7% of net patient service revenue that became effective on January 1, 2018. Operating expenses included this “true tax” in the amount of approximately $1,134,000. The "true tax" has sunset effective July 1, 2019.

As mentioned above, the most significant change in operating income was related to the impact that COVID-19 had as a result of revenue loss due to cancellation of elective procedures and increased costs in the areas of personnel and supplies. Contract labor costs and benefits also contributed to cost increases. Gross patient service revenue increased 1.2% from 2019, and this can mostly be attributed to annual rate increases which were 2% in aggregate. In fiscal year 2020, the provision for bad debts increased approximately $1.7 million to a total of approximately $4.9 million. Charity care also increased approximately $764,000 in fiscal year 2020. Some of these increases were clearly COVID-19 related, as local businesses were shut down and, even upon reopening, have been slow to recover. Also, locally, several health plans pulled out of the state exchange, and premiums continue to be unaffordable causing some individuals to drop coverage. This, combined with patients with higher patient portions, prompted more to apply for, and be granted, charity care. This trend is likely to continue in the future.

Salaries and benefits increased in both fiscal years 2020 and 2019. Negotiated salary increases for the UFCW, ONA, and Teamsters unions were 2% for each of these unions in fiscal year 2020. The Hospital, as mentioned previously, incurred significant costs for temporary labor due to staffing shortages, principally in certain clinical

areas and also for locums physicians. Such costs amounted to approximately $4.2 million in 2020. The Hospital currently has three unions with whom it must negotiate. As of June 30, 2020, approximately 43% of the Hospital's employees are covered under a collective bargaining agreement (CBA) with the UFCW, which expires on June 30, 2022. In addition, as of June 30, 2019, approximately 25% of the Hospital's employees are covered under a CBA with the ONA, which expires on December 31, 2021.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Prior to 2018, the rate of inflation was near zero for many hospital supplies. COVID-19 impacted the availability of personal protective equipment and certain pharmaceuticals, thus negatively impacting pricing. The Hospital still receives the benefit of 340B pricing which helped the Hospital to reduce costs related to pharmaceuticals, though due to the orphan drug exclusion, some costly cancer drugs were exempted from discounts adding to the cost of certain chemotherapy infusions. Total expenditures for supplies and pharmaceuticals were approximately $38.6 million in 2020 compared to approximately $37.8 million in fiscal year 2019, an increase of approximately 2.1%. The Hospital is utilizing two group-purchasing organizations to help ensure that the best contract pricing may be achieved. This has resulted in savings and has limited the total increases in supply and drug expenses.

The Hospital oftentimes provides care for patients who have little or no health insurance or other means of repayment. As discussed above, this service to the community is consistent with the goals established for the Hospital when the current facility was built. When patients meet the Hospital's established charity guidelines, all or part of their bill is written off. In fiscal years 2020, 2019, and 2018, the amount of charity care (at gross charges) was approximately $2.9 million, $2.1 million, and $2.4 million, respectively. Because there is no expectation of repayment, charity care is not reported as net patient service revenue of the Hospital. There are specific guidelines used to apply for charity care; however, many patients who would qualify for charity care do not take the time to apply, so they cannot be included in charity allowances according to Oregon and Federal regulations. The Hospital continues to encourage these individuals to apply for charity care and will continue to assist such individuals in the process, as necessary.

In addition to the charity care provided, the Hospital provides care to government-sponsored programs such as Medicare, Medicaid, and the Oregon Health Plan, where a large discount from billed charges is mandated. In many cases, the payment received is less than the actual cost of treatment. The aggregate amount of these contractual deductions in fiscal years 2020, 2019, and 2018 was approximately $258.3 million, $271.5 million, and $255.2 million, respectively.

Nonoperating revenue and expenses

Nonoperating revenue and expenses generally consist primarily of interest income, realized and unrealized gains and losses on investments, and interest expense. The investment income is earned on long-term investments which may only be invested in allowable fixed-income investments pursuant to State regulations. The net investment income was approximately $4.7 million in fiscal year 2020 compared to net investment income of approximately $4.4 million in fiscal year 2019 and a net investment loss of approximately $339,000 in fiscal year 2018. Included in net investment income in fiscal year 2020 was approximately $2.2 million of unrealized market gains, approximately $2.7 million of interest income, and net of approximately $216,000 in investment fees. In addition, in fiscal year 2020, the net nonoperating revenue included noncapital contributions of approximately $763,000 in addition to $527,000 of recognized Provider Relief Funds. As previously discussed, the Hospital does not receive any tax revenue even though it is a district hospital.

Contributions

The Hospital generally receives very little in the form of cash contributions and other donations. However, in fiscal years 2020, 2019, and 2018, the Hospital received approximately $93,000, $121,000 and $100,000, respectively, from the Foundation in contributions.

The Hospital's cash flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenue and expenses, as discussed earlier. As mentioned previously, the Hospital also received approximately $11.3 million in Provider Relief Funds, as well as approximately $31.0 million from the Advance Payment Program. The largest cash outflow each year is typically the purchase and construction of capital assets, which totaled approximately $4.7 million, $6.8 million, and $10.3 million in fiscal years 2020, 2019, and 2018, respectively.

Capital assets

As of June 30, 2020, the Hospital had approximately $78.3 million invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. As discussed above, in fiscal years 2020, 2019, and 2018, the Hospital purchased or constructed new equipment and capital improvements costing approximately $4.7 million, $6.8 million, and $10.3 million, respectively.

Major capital projects

The Hospital has had various significant capital projects in recent years. One new capital project that started in fiscal year 2020 was the replacement of the Hospital's Enterprise Resource Planning system with Workday. That project just recently went live October 2020. The Hospital has also entered into an Epic Connect agreement with St. Charles Health System which will replace the Hospital's previous electronic health records system. Pre-work on that project began in fiscal year 2020, and the system is anticipated to go live in June 2021. Two capital projects that started in fiscal year 2018 were the renovation and expansion of the ED and Inpatient Psychiatric Unit. These projects were on a combined schedule, and both were completed in fiscal year 2019.

Long-term debt

As of June 30, 2020, the Hospital had approximately $5.0 million in long-term debt outstanding (including the current portion). This compares to approximately $6.6 million in long-term debt outstanding as of June 30, 2019. Long-term debt outstanding as of June 30, 2020 consist of two loans owed to Umpqua Bank: the Construction Note (the proceeds of which were used to help finance various capital projects) and a line of credit agreement (the Line of Credit).

Under terms of the Construction Note, the Hospital is required to make payments in monthly installments of approximately $96,000 (including interest at a fixed rate of 2.75%) through July 2024, with any remaining outstanding principal and accrued interest due in July 2024. Outstanding borrowings under the Construction Note as of June 30, 2020 and 2019 were approximately $1.3 million and $2.4 million, respectively.

The Line of Credit provides for maximum borrowings of $10,000,000 and expires in July 2021. Borrowings under the Line of Credit generally bear interest at the current one-month London Interbank Offered Rate (1.60% as of June 30, 2020) plus 1.75% and are secured by substantially all assets of the Hospital. Outstanding borrowings under the Line of Credit as of June 30, 2020 and 2019 were approximately $3.7 million and $4.2 million, respectively.

Other economic factors

The Hospital is Coos County's largest employer, followed by The Mill Casino, the local school districts, and Southwestern Oregon Community College. In recent years, the area has experienced significant growth in the retiree population moving to the coast from California and other states, and tourism is growing as an important contributor to the local economy. The South Coast Development Council (the SCDC) was started in 2001 to help attract industry and business to the Southern Oregon Coast. The Hospital has a seat on the Board of Directors of the SCDC. As mentioned previously, COVID-19 has had a significant impact on the local economy. The unemployment rate in Coos County was 8.5% as of August 2020, up from 3.8% in November 2019. Tourism and local restaurants have been seriously impacted by the COVID-19 pandemic, and any recovery is likely to be slow, as measures to limit the spread of the virus will continue to suppress job growth.

Contacting the Hospital's financial management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Samuel Patterson, Chief Financial Officer, at Bay Area Hospital, 1775 Thompson Road, Coos Bay, Oregon 97420.

Bay Area Health District, dba Bay Area Hospital

Statements of Net Position

June 30, 2020 and 2019

	2020	2019
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	$ 13,742,463	$ 21,738,561
Patient accounts receivable - net of allowance for doubtful accounts of $3,444,873 ($4,397,001 in 2019)	27,906,687	19,662,365
Supplies inventory	6,227,416	5,858,150
Current portion of assets limited as to use	14,629,393	-
Prepaid expenses and other current assets	6,496,757	5,624,879
Total current assets	69,002,716	52,883,955
Assets limited as to use - net of current portion	111,487,709	76,210,344
Capital assets		
Depreciable capital assets - net	73,627,416	79,049,741
Nondepreciable capital assets	4,646,101	2,136,512
Total capital assets - net	78,273,517	81,186,253
Other noncurrent assets	749,056	788,168
Total assets	259,512,998	211,068,720
Deferred outflows of resources		
Defined benefit pension plan	6,895,934	5,050,503
Postemployment health care plan	331,620	288,054
Total deferred outflows of resources	7,227,554	5,338,557
Total Assets and Deferred Outflows of Resources	$ 266,740,552	$ 216,407,277

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

Bay Area Health District, dba Bay Area Hospital

Statements of Net Position (Continued)

June 30, 2020 and 2019

	2020	2019
Liabilities, Deferred Inflows of Resources, and Net Position		
Current liabilities		
Accounts payable	$ 5,553,713	$ 4,283,291
Accrued liabilities		
Payroll, payroll taxes, and withholdings	1,962,357	2,525,908
Paid time off	5,033,028	5,022,577
Other	5,949,302	5,999,370
Estimated third-party payor settlements payable - net	2,400,200	1,753,922
Current portion of long-term debt	1,120,122	1,089,562
Deferred government stimulus grants	10,795,586	-
Current portion of Medicare accelerated payments	3,437,588	-
Total current liabilities	36,251,896	20,674,630
Noncurrent liabilities		
Medicare accelerated payments - net of current portion	27,570,823	-
Long-term debt - net of current portion	3,864,722	5,501,787
Net pension liability	4,851,134	1,135,767
Other noncurrent liabilities	4,114,514	4,421,228
Total noncurrent liabilities	40,401,193	11,058,782
Total liabilities	76,653,089	31,733,412
Deferred inflows of resources		
Defined benefit pension plan	1,442,176	1,986,925
Postemployment health care plan	559,302	696,280
Total deferred inflows of resources	2,001,478	2,683,205
Total liabilities and deferred inflows of resources	78,654,567	34,416,617
Net position		
Net investment in capital assets	73,288,673	74,594,904
Unrestricted	114,797,312	107,395,756
Total net position	188,085,985	181,990,660
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 266,740,552	$ 216,407,277

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

Bay Area Health District, dba Bay Area Hospital

Statements of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenue		
Net patient service revenue - net of provision for bad debts of $4,884,049 ($3,189,414 in 2019)	$ 188,887,322	$ 185,535,036
Other revenue	1,616,733	1,648,409
Total operating revenue	190,504,055	187,183,445
Operating expenses		
Salaries and benefits	97,783,168	93,217,800
Supplies and other	54,458,015	53,542,737
Professional fees and purchased services	30,439,287	26,238,455
Depreciation	7,602,199	7,691,447
Total operating expenses	190,282,669	180,690,439
Operating Income	221,386	6,493,006
Nonoperating revenue (expenses)		
Investment income - net	4,708,903	4,368,635
Noncapital contributions	763,357	395,298
Government stimulus income	527,004	-
Gains (losses) on disposals of capital assets - net	(30,551)	29,128
Interest expense	(187,646)	(273,088)
Total nonoperating revenue - net	5,781,067	4,519,973
Income Before Capital Contributions	6,002,453	11,012,979
Capital contributions from the Foundation	92,872	120,906
Increase in Net Position	6,095,325	11,133,885
Net position - beginning of year	181,990,660	170,856,775
Net Position - End of Year	$ 188,085,985	$ 181,990,660

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

Bay Area Health District, dba Bay Area Hospital

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	$ 181,289,278	$ 186,981,011
Receipt of Medicare accelerated payments	31,008,411	-
Payments to suppliers and contractors	(84,779,612)	(81,584,636)
Payments to employees	(97,474,665)	(92,933,690)
Other receipts and payments - net	1,493,691	1,314,718
Net cash provided by operating activities	31,537,103	13,777,403
Cash Flows From Noncapital Financing Activities		
Receipt of government stimulus grants	11,322,590	-
Noncapital contributions	763,357	395,298
Net cash provided by noncapital financing activities	12,085,947	395,298
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets - net	(4,720,014)	(6,754,487)
Principal paid on long-term debt	(1,606,505)	(1,708,034)
Interest paid on long-term debt	(187,646)	(273,088)
Capital contributions from the Foundation	92,872	120,906
Net cash used by capital and related financing activities	(6,421,293)	(8,614,703)
Cash Flows From Investing Activities		
Increase in assets limited as to use - net	(49,906,758)	(4,586,773)
Investment income - net	4,708,903	4,368,635
Net cash used by investing activities	(45,197,855)	(218,138)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,996,098)	5,339,860
Cash and cash equivalents - beginning of year	21,738,561	16,398,701
Cash and Cash Equivalents - End of Year	$ 13,742,463	$ 21,738,561
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 221,386	$ 6,493,006
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	7,602,199	7,691,447
Provision for bad debts	4,884,049	3,189,414
Changes in certain operating assets and liabilities		
Patient accounts receivable	(13,128,371)	(1,984,961)
Supplies inventory	(369,266)	(443,055)
Prepaid expenses and other current assets	(871,878)	(949,104)
Net pension asset and pension liability	1,325,187	(373,740)
Other noncurrent assets	39,112	(64,544)
Accounts payable	1,270,422	(754,855)
Accrued liabilities	(603,168)	1,115,161
Estimated third-party payor settlements payable - net	646,278	241,522
Medicare accelerated payments	31,008,411	-
Other noncurrent liabilities	(487,258)	(382,888)
Net cash provided by operating activities	$ 31,537,103	$ 13,777,403

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

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Years Ended June 30, 2020 and 2019

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

Business and organization

Bay Area Health District, dba Bay Area Hospital (the Hospital), was incorporated as a municipal corporation in Coos County, Oregon in June 1952. The Hospital provides various health care and health care related services to the citizens of Coos Bay and North Bend, Oregon and to others in the Southern Oregon Coastal area.

The Hospital receives support from Bay Area Hospital Auxiliary (the Auxiliary) and Bay Area Health District Foundation (the Foundation). The Auxiliary is a separate nonprofit corporation and a tax-exempt organization under the provisions of the Internal Revenue Code (the Code). The Foundation – while not a separate legal entity – maintains its financial records separate from the Hospital. Other accrued liabilities include approximately $345,000 due to the Foundation from the Hospital in the accompanying statement of net position as of June 30, 2019. Amounts due to (from) the Hospital to (from) the Foundation were not significant as of June 30, 2020.

The Hospital has also established the Bay Area Community Information Agency (BACIA), a separate governmental agency with the purpose of facilitating the exchange of electronic health care information among health care providers in the Hospital's operating region. BACIA's board of directors is appointed by the Hospital's Board of Directors (the Board) and is required to include at least one member of the Board or management of the Hospital (Management). Although the Hospital has agreed to provide support to fund BACIA's operations as needed, no funding was required for the years ended June 30, 2020 and 2019, and the Hospital does not anticipate that such funding will be required in the near-term.

Basis of presentation and accounting

The accompanying financial statements include the accounts and transactions of the Hospital. The accompanying financial statements do not include the accounts and transactions of the Auxiliary, the Foundation, or BACIA, as such accounts and transactions are not significant to the Hospital's separate financial statements. The Hospital is not a component unit of any other organization.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S.), as applied to governmental units (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Accordingly, the Hospital utilizes the enterprise fund method of accounting, whereby revenue, income, gains, expenses, and losses are recognized on the accrual basis using the economic resources measurement focus. Substantially all revenue, income, gains, expenses, and losses are subject to accrual. Since the Hospital is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds.

Use of estimates

The preparation of financial statements in accordance with GAAP requires 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 financial statements and the reported amounts of revenue, income, gains, expenses, and losses during the reporting period. Actual results could differ from those estimates.

COVID-19 pandemic and the CARES Act

In January 2020, the Secretary of the U.S. Department of Health and Human Services (HHS) declared a national public health emergency due to a novel strain of coronavirus (COVID-19). The global pandemic caused by COVID-19 (the COVID-19 pandemic) has significantly affected the Hospital's facilities, employees, patients, community, business operations, and financial performance, as well as the U.S. economy and financial markets. Due in part to local, state, and federal guidelines (as well as recommendations from major medical societies); social distancing; and self-quarantines in response to the COVID-19 pandemic, beginning in March 2020, the COVID-19 pandemic began to negatively affect the

Hospital's net revenue and business operations. Specifically, for the period from March 18, 2020 to May 11, 2020, the Hospital temporarily ceased performing many elective medical procedures, and the Hospital's surgical case volumes decreased significantly. In addition, during this period, the Hospital temporarily furloughed approximately 6.5% of its employees, mandated time off for salaried employees, and restricted capital purchases. Although the Hospital cannot provide any certainty regarding the length and severity of the impact of the COVID-19 pandemic, surgical case volumes gradually improved throughout the summer as the State of Oregon (Oregon) and local governments began to re-open and allow for non-emergent procedures. The Hospital's operating structure enables some flexibility in the cost structure according to the volume of surgical procedures performed, including much of its cost of revenues. In addition to the natural variability of these costs, the Hospital has undertaken additional steps to preserve financial flexibility. Beginning in March 2020, and through June 2020, the Hospital took actions that included significantly reducing cash operating expenses and deferring non-essential expenditures at the height of the crisis.

The impact of the COVID-19 pandemic on the Hospital's future 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, employees, and vendors. The extent to which COVID-19 may impact the Hospital's future financial condition or results of operations is uncertain and cannot be reasonably estimated at this time.

In March 2020, the U.S. Congress passed the *Coronavirus Aid, Relief and Economic Security Act* (the CARES Act) which, among other things, provided certain relief to health care providers. In April and May 2020, the Hospital received aggregate grants of $11,322,590 from HHS under the CARES Act. Payments received from these grants (i.e., "Provider Relief Funds") are not required to be repaid provided that the recipient attests to and complies with certain terms and conditions, including limitations on balance billing and not using funds received from the grants to reimburse expenses or losses that other sources are obligated to reimburse. The recognition of amounts received as revenue is conditioned upon certification that funds will be used to prevent, prepare for, and respond to the COVID-19 pandemic and shall reimburse the recipient only for health care-related expenses or lost revenues that are attributable to the COVID-19 pandemic. Amounts are recognized as nonoperating revenue only to the extent that the Hospital is reasonably assured that underlying conditions are met. Based on Management's analysis, the Hospital met the requirements to recognize $527,004 of such grant funds as revenue during the year ended June 30, 2020, which is recorded as government stimulus income in the accompanying 2020 statement of revenue, expenses, and changes in net position. As of June 30, 2020, the remaining unrecognized amount of such funds was $10,795,586 and is recorded in current liabilities as deferred government stimulus grants in the accompanying 2020 statement of net position. Based on COVID-19 related expenditures and/or lost revenues that are attributable to the COVID-19 pandemic in the year ending June 30, 2021, Management will evaluate the extent that such remaining unrecognized amount will be recorded as nonoperating revenue in fiscal year 2021. The current guidance governing the reporting of COVID-19 related expenditures and/or lost revenues that are attributable to the COVID-19 pandemic is vague and subject to interpretation. In addition, the guidance has been modified several times since the Provider Relief Funds have been distributed. As a result, there is at least a reasonable possibility that the amount of such funds recorded as income will change by a material amount in the near-term.

In addition, the CARES Act provides for an expansion of the Medicare Accelerated and Advance Payment Program (the Advance Payment Program), whereby inpatient acute care hospitals and other eligible providers may request accelerated payment of up to 100% of their Medicare payment amount for a six-month period. These accelerated payments are required to be repaid to Medicare through withholding of future Medicare fee-for-service payments beginning one year after receipt of the advance payments by the Hospital. During the year ended June 30, 2020, the Hospital received $31,008,411 of such expanded payments under the Advance Payment Program. As of June 30, 2020, the Hospital had not returned any such payments to Medicare through withholding from subsequent Medicare payments to the Hospital, and all such amounts received under the Advance Payment Program are recorded as Medicare accelerated payments in the accompanying 2020 statement of net position (with an estimated breakdown by Management between current and noncurrent portions).

Budgets

The Hospital is required to prepare and adopt an annual operating budget in accordance with the Oregon Local Budget Law. This budget is prepared differently, in some respects, from GAAP. The differences are primarily as follows:

- Principal debt service payments are treated as expenditures for budgetary purposes.
- Purchases of capital assets are treated as capital outlay expenditures for budgetary purposes.
- Depreciation expense is not budgeted.

Expenditures are controlled by appropriations adopted by resolutions of the Board, as permitted by Oregon Local Budget Law. The Hospital makes annual appropriations by object classification (i.e., personal services, materials and services, capital outlay, and debt service). Unexpended appropriations lapse at the end of each fiscal year. The notice of the fiscal year 2021 budget hearing was published on the same day as the budget hearing (June 30, 2020); whereas, Oregon budget law requires this notice to be published from five to thirty days prior to the meeting.

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).

Patient accounts receivable and allowance for doubtful accounts

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; however, it maintains an estimated allowance for doubtful accounts. 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). The Hospital does not maintain a significant allowance for doubtful accounts related to patient accounts receivable from third-party payors, nor has it historically had significant bad debt write-offs of patient accounts receivable from third-party payors. However, for services provided to patients who have third-party coverage, the Hospital records the related patient service revenue and patient accounts receivable net of contractual discounts and allowances. During the year ended June 30, 2020, net patient service revenue was increased by approximately $1,400,000 due to a change in Management's estimate of the collectability of patient accounts receivable as of June 30, 2019.

For patient accounts receivable due from self-pay patients – which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill – the Hospital records a significant allowance for doubtful accounts. The allowance for doubtful accounts is determined 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. Patient accounts receivable balances are routinely reviewed in conjunction with historical collection rates and other economic conditions which might ultimately affect the collectability of patient accounts when considering the adequacy of the amounts recorded in the allowance for doubtful accounts. The difference between the Hospital's standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Recoveries of amounts charged off are added to the allowance for doubtful accounts. Actual write-offs have historically been within Management's expectations. 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 net patient accounts receivable as of June 30, 2020 and 2019 were approximately as follows:

	2020	2019
Medicare	40%	35%
Commercial insurance	33	40
Other negotiated contracts	17	9
Self-pay	5	9
Medicaid and Oregon Health Plan (OHP)	5	7
	100%	100%

Supplies inventory

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

Assets limited as to use

Assets limited as to use consist of assets (exchange-traded funds (ETFs), a money market account, mortgage-backed securities, U.S. Government Agency obligations, corporate and asset-backed obligations, U.S. Treasury securities, and municipal bonds) from the Medicare accelerated payment program, from the Provider Relief Funds, and internally designated for capital acquisitions (internally designated assets) designated by the Board for future capital acquisitions (over which the Board retains control and may, at its discretion, subsequently use for other purposes) (see Note 2). Investments included in assets limited as to use are stated at fair value in the accompanying statements of net position (see Note 12 for a discussion of fair value measurements). Interest, dividends, and gains (losses) – both realized and unrealized – on these investments are included in nonoperating revenue when earned (incurred).

Capital assets

The Hospital considers an asset which has an estimated useful life in excess of one year to be a capital asset. Purchased capital assets costing more than $5,000 are recorded at historical cost. Capital assets costing $5,000 or less are recorded as expense in the year of acquisition. Contributed capital assets are recorded at their estimated fair value at the time of their donation. Improvements and replacements of capital assets are capitalized. Routine maintenance and repairs are charged to expense as incurred.

All capital assets other than land are depreciated over their estimated useful lives using the straight-line method. Depreciation of assets in construction in progress begins when such assets are placed in service. Useful lives of depreciable assets are based on guidelines published by the American Hospital Association.

Management reviews capital assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets 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 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.

Costs of borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, 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. None of the Hospital's interest costs was capitalized during the years ended June 30, 2020 and 2019, as the amount of capitalized interest would have been insignificant to the Hospital's financial statements.

Paid time off (PTO)

The Hospital's employees earn PTO at varying rates depending on years of service. Employees can accumulate unused PTO from one year to the next, except for PTO in excess of 525 hours. Twice a year, employees can request that up to 80 hours of their unused PTO in excess of 80 hours be paid to them in cash, provided that they have taken at least 80 hours of PTO during the previous year. All unused PTO is paid to employees in cash upon their termination of employment from the Hospital, if proper notice has been given.

Net position, deferred outflows of resources, and deferred inflows of resources

A deferred outflow of resources represents the consumption of net position that is applicable to a future reporting period. A deferred inflow of resources represents the acquisition of net position that is applicable to a future reporting period. As of June 30, 2020 and 2019, all of the Hospital's deferred outflows and inflows of resources related to the Hospital's defined benefit pension plan (see Note 7) and postemployment health care plan (see Note 9).

Net position of municipal hospitals is typically classified into three broad components as follows:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and net of the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

- *Restricted net position* can include two components: *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by bond indentures, and *restricted nonexpendable net position* equals the principal portion of permanent endowments. As of June 30, 2020 and 2019, the Hospital had no significant *restricted net position*.

- *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted expendable* or *restricted nonexpendable net position*.

Net patient service revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements primarily include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments, and capitated payments. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered and includes estimates for potential retroactive revenue adjustments under reimbursement agreements with third-party payors. Such estimates are adjusted in future periods as final settlements are determined.

A significant portion of the Hospital's services is provided to Medicare, Medicaid, and OHP patients under contractual arrangements. Inpatient acute care services rendered by the Hospital to Medicare and Medicaid program beneficiaries are generally 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-adjusted 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. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. Home health services related to Medicare beneficiaries are reimbursed under a prospective payment system methodology. Certain outpatient services related to Medicare and Medicaid beneficiaries are reimbursed under 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 and Medicaid. The Hospital's cost reports have been audited and final settled by the Medicare fiscal intermediary and Medicaid through June 30, 2017.

Services rendered to OHP beneficiaries are partially reimbursed under a capitation agreement. During the years ended June 30, 2020 and 2019, the Hospital received approximately $15,596,000 and $13,697,000, respectively, in capitation payments related to OHP beneficiaries (see Note 11), which are included in net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position.

The laws and regulations governing the Medicare, Medicaid, and OHP 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 estimated third-party payor settlements payable - net will change by a material amount in the near-term. Net patient service revenue was increased by approximately $1,322,000 during the year ended June 30, 2019 as a result of final settlements of prior year cost reports and revisions of estimates for prior year cost report settlements.

Gross patient service revenue for services provided by the Hospital to Medicare, Medicaid, and OHP patients aggregated approximately $334,000,000 and $332,000,000 for the years ended June 30, 2020 and 2019, respectively. Net patient service revenue for services provided to these same patients aggregated approximately $76,000,000 and $60,000,000 for the years ended June 30, 2020 and 2019, respectively.

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. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates based on the type of service delivered.

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 or underinsured 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 uninsured individuals with an annual household income of between 200% and 450% of the Guidelines. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported as net patient service revenue (see Note 6).

Operating revenue and expenses

The Hospital's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenue (expenses) – including investment income - net, grants and contributions received for purposes other than capital asset acquisition, government stimulus income, and gains and losses on disposals of capital assets – are reported as nonoperating revenue (expenses). Operating expenses include all expenses incurred to provide health care services, other than financing costs.

Grants and contributions

Periodically, the Hospital receives grants from other municipalities, as well as contributions from individuals and private organizations. In addition, during the year ended June 30, 2020, the Hospital received aggregate grants of approximately $11,323,000 from HHS under the CARES Act. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted either for specific operating purposes or for capital purposes. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources. Amounts that are unrestricted or that are restricted for a specific operating

purpose are reported as nonoperating revenue. Amounts restricted for capital acquisitions are reported after nonoperating revenue and expenses in the accompanying statements of revenue, expenses, and changes in net position. During the years ended June 30, 2020 and 2019, the Hospital received capital contributions of $92,872 and $120,906, respectively, from the Foundation.

Oregon provider tax

Oregon levies a "provider tax" on certain qualifying hospitals, including the Hospital, to provide additional funding for OHP. The tax is based on net patient service revenue, as adjusted in accordance with the rules governing the program. The Hospital recorded provider taxes of approximately $10,590,000 and $10,637,000 for the years ended June 30, 2020 and 2019, respectively, which are included in supplies and other operating expenses in the accompanying statements of revenue, expenses, and changes in net position.

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 net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position. Generally, the amount of annual receipts from OAHHS matches the annual amount of taxes paid. However, for the period from January 1, 2018 through June 30, 2019, certain hospitals – including the Hospital – subject to the tax were required to pay an additional tax of 0.7% of net patient service revenue that was not matched by annual receipts from OAHHS. This additional tax was approximately $1,134,000 for the year ended June 30, 2019. The additional tax was repealed effective July 1, 2019.

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 insurance coverage in any of the three years ended June 30, 2020, 2019, or 2018. The Hospital is self-insured for employee health care claims up to $250,000. Employee health care claims are accrued as the incidents which give rise to them become known. The provision and accrual for estimated employee health care claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are based upon the estimated cost of settlement. Management believes that adequate amounts have been accrued in the accompanying financial statements to cover estimated employee health care claims.

Federal and state income taxes

The Hospital is a municipal corporation. In addition, the Internal Revenue Service (IRS) has issued a determination letter stating that the Hospital is exempt from federal income taxes under Section 501(c)(3) of the Code. Accordingly, only unrelated business income is subject to federal or state income taxes. 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 financial statements.

The Hospital is classified as an affiliate of a governmental unit by the IRS. Therefore, the Hospital is not required to file a federal information return in the U.S. or a state information return in Oregon unless it has unrelated business income. Accordingly, the Hospital did not file such returns for the years ended June 30, 2020 or 2019.

Recently issued accounting standards

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95). GASB 95 defers the effective dates of certain previously issued GASB statements as a result of the COVID-19 pandemic. The GASB statements described below reflect the revised effective dates as established by GASB 95.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. GASB 84 will first be effective for the Hospital's fiscal year 2021, with early adoption encouraged. Management is currently evaluating the effect that GASB 84 will have on the Hospital's future financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 is intended to increase transparency and comparability among organizations by requiring the recognition of certain lease assets and lease liabilities in the statement of net position and disclosure of key information about leasing arrangements. The principal change required by GASB 87 relates to lessee accounting and is that for leases – other than a short-term lease or a lease that transfers ownership of the underlying asset – a lessee is required to (1) recognize a lease liability in the statement of net position, initially measured at the present value of the lease payments expected to be made during the lease term (less any lease incentives), and (2) recognize a right-of-use asset in the statement of net position, initially measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made. GASB 87 will first be effective for the Hospital's fiscal year 2022, with early adoption encouraged. Management is currently evaluating the effect that GASB 87 will have on the Hospital's future financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). Prior to the implementation date of GASB 89, governments are required to capitalize certain interest costs in business-type activities and enterprise funds. GASB 89 supersedes existing guidance and requires that – for financial statements prepared using the economic resources measurement focus – interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 89 will first be effective for the Hospital's fiscal year 2022. The requirements of GASB 89 should be applied prospectively, and for construction-in-progress, interest cost incurred after the beginning of the first reporting period to which GASB 89 is applied should not be capitalized. The effect that GASB 89 will have on the Hospital's future financial statements will depend on the Hospital's future interest costs and construction projects when GASB 89 is adopted.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Agreements* (GASB 96). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). GASB 96 prescribes a methodology to accounting for SBITAs similar to that provided by GASB 87 to leases, whereby a government generally should recognize a right-to-use subscription asset (i.e., an intangible asset) and a

corresponding subscription liability for SBITAs. A government would generally recognize such amounts at the commencement of the subscription term, which occurs when the initial implementation stage of an information technology (IT) project is completed.

The Hospital early adopted GASB 96 effective July 1, 2019 using a modified retrospective method of application to all SBITAs existing on January 1, 2019. Therefore, the comparative prior period information has not been restated and continues to be reported under previous GASB guidance. Management determined that the Hospital had no significant SBITAs as of July 1, 2019 or June 30, 2020, and, accordingly, the adoption of GASB 96 did not result in the Hospital recognizing any right-to-use subscription asset or subscription liability for SBITAs in the accompanying financial statements as of July 1, 2019 or June 30, 2020. Also, accordingly, upon adoption of GASB 96, there was no cumulative effect impact on the Hospital's total net position. See Note 4 for additional disclosures related to SBITAs.

2. Deposits and Investments

Cash and cash equivalents and assets limited as to use consisted of the following as of June 30, 2020 and 2019:

	2020	2019
Cash and cash equivalents		
Cash on hand	$ 1,000	$ 1,000
Cash deposits in a financial institution	13,741,463	21,737,561
Total cash and cash equivalents	13,742,463	21,738,561
Assets limited as to use		
Medicare accelerated payments – ETFs	31,008,411	-
Provider Relief Funds – ETFs	11,322,590	-
Internally designated assets		
Money market account with an investment broker	757,519	2,919,239
ETFs	2,559,036	-
Mortgage-backed securities	36,639,442	37,284,264
U.S. Government agency obligations	6,574,252	13,161,772
Corporate and asset-backed obligations	12,553,217	12,779,509
U.S. Treasury securities	23,134,010	8,329,855
Municipal bonds	1,568,625	1,735,705
Total internally designated assets	83,786,101	76,210,344
Total assets limited as to use	126,117,102	76,210,344
Less portion classified as current	(14,629,393)	-
Total assets limited as to use - net of current portion	111,487,709	76,210,344
Total cash and cash equivalents and assets limited as to use - net of current portion	$ 125,230,172	$ 97,948,905

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Hospital is required by the Oregon Revised Statutes (ORS) Chapter 295 (ORS 295) to maintain any deposits and money market accounts in financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) coverage at certain "qualified depositories." As of and for the years ended June 30, 2020 and 2019, all of the Hospital's deposits and money market accounts in financial institutions in excess of FDIC coverage were maintained at "qualified depositories."

As of June 30, 2020, the Hospital had investments in ETFs, a money market account with an investment broker, mortgage-backed securities, U.S. Government agency obligations, corporate obligations, U.S. Treasury securities, and municipal bonds. Management believes that the Hospital's credit risk with respect to these investments is minimal due to the diversity of the individual investments and the financial strength of the entities which have issued the securities or instruments. However, due to changes in economic conditions, government intervention, and interest rates, the fair value of the Hospital's investments can be volatile. Consequently, the fair value of the Hospital's investments can significantly change in the near-term as a result of such volatility.

The ORS and the Hospital's investment policy authorize the Hospital to invest in general obligations of the U.S. and the agencies and instrumentalities of the U.S. or enterprises sponsored by the U.S. Government; debt obligations of the agencies and instrumentalities of Oregon (rated A- or better) and the states of Washington, Idaho, or California (rated AA- or better); time deposit open accounts, certificates of deposit, and savings accounts in insured institutions or credit unions; credit union share and savings accounts; fixed or variable life insurance or annuity contracts and guaranteed investment contracts issued by life insurance companies authorized to do business in Oregon; certain pooled trusts of public employers' deferred compensation funds; certain banker's acceptances; certain corporate indebtedness that is rated P-1 or Aa3 or better by Moody's Investors Service or A-1 or AA- or better by Standard & Poor's Corporation; certain securities of an open-end or closed-end management investment company or investment trust; certain repurchase agreements; and shares of stock of a company, association, or corporation (including shares of a mutual fund) but only if such funds are set aside pursuant to a deferred compensation plan and are held in trust for the exclusive benefit of participants and their beneficiaries.

As of June 30, 2020 and 2019, the Hospital's investments were rated from A-2 to AAA by Moody's Investor Service or Standard & Poor's Corporation.

As of June 30, 2019, the Hospital's investments included approximately $4,965,000 in asset-backed securities issued by various corporations. During the year ended June 30, 2019, the Hospital determined that such investments did not appear to comply with the relevant provisions of the ORS and the Hospital's investment policy. Accordingly, the Hospital liquidated all such investments during July 2019.

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit insurance policy for custodial credit risk. As of June 30, 2020 and 2019, the Hospital had deposits in a single financial institution exposed to custodial credit risk as follows:

	2020	2019
Insured by the FDIC	$ 250,000	$ 250,000
Collateralized with securities held by the pledging financial institution's trust department or agent in other than the Hospital's name	15,426,059	23,798,835
Total	$ 15,676,059	$ 24,048,835

The Hospital's deposits at a financial institution are insured by the FDIC up to a combined maximum of $250,000.

ORS 295 governs the collateralization of Oregon public funds. Oregon's Public Funds Collateralization Program (the PFCP) was created by the Oregon State Treasurer (the OST) to facilitate bank depository, custodian, and public official compliance with ORS 295. Under the PFCP – which created a shared liability structure for participating depositories – these bank depositories are required to pledge collateral against any public funds' deposits in excess of deposit insurance amounts. Based on information that the banks are required to report quarterly, the PFCP calculates each depository bank's minimum collateral (maximum liability) that must be pledged with the custodian for the next quarter. The pledged securities are designated as subject to the pledge agreement between the depository bank, the custodian bank (the Federal Home Loan Bank of Des Moines, which acts as agent for the depository banks) and the OST, and

are held for the benefit of the OST on behalf of the public depositors. As of December 31, 2019, the aggregate Oregon public fund collateral pledged exceeded 100% of the public fund deposits held by the Hospital's depository bank. The PFCP reports for the first and second quarters of 2020 were not available as of November 5, 2020; however, Management believes that the aggregate Oregon public fund collateral pledged still exceeded 100% of the public funds deposits held by the Hospital's depository bank through June 30, 2020. As of June 30, 2019, the aggregate Oregon public fund collateral pledged exceeded 100% of the public fund deposits held by the Hospital's depository bank.

The Hospital's investments are reported at fair value, as discussed in Note 12. As of June 30, 2020 and 2019, all of the Hospital's investments were held in the Hospital's name by an investment broker which is an agent for the Hospital.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Debt securities with longer maturities are subject to increased risk of adverse interest rate changes. The Hospital has a formal investment policy that limits the expected maturities of investments as a means of managing its exposure to interest rate risk.

As of June 30, 2020 and 2019, the Hospital's investments in debt securities had the following contractual maturities:

	Mortgage-backed Securities	U.S. Government Agency Obligations	Corporate and Asset-Backed Obligations	U.S. Treasury Securities	Municipal Bonds	Total
2020						
Investment maturity						
Less than one year	$ -	$ -	$ -	$ 6,101,897	$ -	$ 6,101,897
1-5 years	90	6,574,252	7,922,795	15,143,309	1,568,625	31,209,071
6-10 years	6,104,412	-	4,013,589	1,888,804	-	12,006,805
More than 10 years	30,534,940	-	616,833	-	-	31,151,773
Total	$ 36,639,442	$ 6,574,252	$ 12,553,217	$ 23,134,010	$ 1,568,625	$ 80,469,546
2019						
Investment maturity						
Less than one year	$ 513	$ 3,110,799	$ 841,760	$ -	$ 204,190	$ 4,157,262
1-5 years	136	4,746,221	7,596,290	5,681,557	1,531,515	19,555,719
6-10 years	4,787,476	5,304,752	4,094,714	2,648,298	-	16,835,240
More than 10 years	32,496,139	-	246,745	-	-	32,742,884
Total	$ 37,284,264	$ 13,161,772	$ 12,779,509	$ 8,329,855	$ 1,735,705	$ 73,291,105

Concentration of credit risk

Concentration of credit risk with respect to deposits and investments is the risk of loss attributed to the magnitude of the Hospital's investment in a single issuer. As of June 30, 2020 and 2019, none of the Hospital's individual investments represented 5.0% or more of its total investments.

3. Patient Accounts Receivable

Patient accounts receivable as of June 30, 2020 and 2019 consisted of the following:

	2020	2019
Receivable from patients and their insurance carriers	$ 19,248,501	$ 16,220,783
Receivable from Medicare - net	10,800,581	6,568,227
Receivable from Medicaid and OHP - net	1,302,478	1,270,356
Total patient accounts receivable	31,351,560	24,059,366
Less allowance for doubtful accounts	(3,444,873)	(4,397,001)
Patient accounts receivable - net	$ 27,906,687	$ 19,662,365

4. Capital Assets

The activity in the Hospital's capital assets and related accumulated depreciation accounts for the years ended June 30, 2020 and 2019 was as follows:

	June 30, 2019	Additions/ Provisions	Sales and Retirements	Transfers	June 30, 2020
2020					
Depreciable capital assets					
Cost					
Land improvements	$ 3,188,873	$ -	$ -	$ -	$ 3,188,873
Buildings and improvements	108,715,113	-	-	348,130	109,063,243
Fixed equipment	12,921,176	-	-	534,295	13,455,471
Movable equipment	101,111,829	1,114,520	(25,407,980)	213,579	77,031,948
Total depreciable capital assets	225,936,991	$ 1,114,520	$ (25,407,980)	$ 1,096,004	202,739,535
Accumulated depreciation					
Land improvements	2,513,908	$ 125,605	$ -	$ -	2,639,513
Buildings and improvements	45,747,537	3,250,713	-	-	48,998,250
Fixed equipment	10,561,130	365,264	-	-	10,926,394
Movable equipment	88,064,675	3,860,617	(25,377,330)	-	66,547,962
Total accumulated depreciation	146,887,250	$ 7,602,199	$ (25,377,330)	$ -	129,112,119
Depreciable capital assets - net	79,049,741				73,627,416
Nondepreciable capital assets					
Land	1,138,426	$ -	$ -	$ -	1,138,426
Construction in progress	998,086	3,605,593	-	(1,096,004)	3,507,675
Total nondepreciable capital assets	2,136,512	$ 3,605,593	$ -	$ (1,096,004)	4,646,101
Capital assets - net	$ 81,186,253				$ 78,273,517

	June 30, 2018	Additions/ Provisions	Sales and Retirements	Transfers	June 30, 2019
2019					
Depreciable capital assets					
Cost					
Land improvements	$ 3,149,088	$ -	$ -	$ 39,785	$ 3,188,873
Buildings and improvements	99,498,691	-	-	9,216,422	108,715,113
Fixed equipment	12,867,547	-	-	53,629	12,921,176
Movable equipment	98,940,735	1,762,299	(161,793)	570,588	101,111,829
Total depreciable capital assets	214,456,061	$ 1,762,299	$ (161,793)	$ 9,880,424	225,936,991
Accumulated depreciation					
Land improvements	2,384,596	$ 129,312	$ -	$ -	2,513,908
Buildings and improvements	42,744,446	3,003,091	-	-	45,747,537
Fixed equipment	10,227,130	334,000	-	-	10,561,130
Movable equipment	84,000,258	4,225,044	(160,627)	-	88,064,675
Total accumulated depreciation	139,356,430	$ 7,691,447	$ (160,627)	$ -	146,887,250
Depreciable capital assets - net	75,099,631				79,049,741
Nondepreciable capital assets					
Land	1,138,426	$ -	$ -	$ -	1,138,426
Construction in progress	5,856,028	5,022,482	-	(9,880,424)	998,086
Total nondepreciable capital assets	6,994,454	$ 5,022,482	$ -	$ (9,880,424)	2,136,512
Capital assets - net	$ 82,094,085				$ 81,186,253

Construction in progress as of June 30, 2020 primarily includes costs incurred in connection with a new electronic health records (EHR) system (the EHR System) and a new human resources and payroll system (the HR System) (collectively, "the IT Projects"). Management has determined that the HR System is considered to be an SBITA in accordance with GASB 96 (see Note 1). However, as of June 30, 2020, the HR System was in the initial implementation stage; accordingly, the Hospital has not recorded any right-to-use subscription asset or subscription liability in the accompanying June 30, 2020 statement of net position. Also, as of June 30, 2020, in addition to the initial implementation costs included in construction in progress, prepaid expenses and other current assets includes approximately $829,000 related to the initial annual subscription payment for the HR System.

Management estimates that the aggregate cost to complete the IT Projects is approximately $26,000,000 as of June 30, 2020, which will primarily be financed with a combination of internally-designated funds and the anticipated issuance of long-term debt. In addition, under terms of the contracts for the IT Projects, the Hospital will be required to make future annual maintenance and support costs related to the EHR System and subscription payments related to the HR System. As of June 30, 2020, required future maintenance and support costs and subscription payments under the contracts for the IT Projects were expected to be approximately as follows:

Fiscal Years Ending June 30,	Amount
2021	$ 829,000
2022	4,216,000
2023	4,216,000
2024	4,216,000
2025	3,387,000
Thereafter	6,774,000
Total	$ 23,638,000

In connection with the EHR System, the Hospital has also entered into agreements (the Clinic Agreements) with two unrelated, third-party clinics (the Clinics) in the Hospital's service area which are concurrently implementing the same EHR system. Under terms of the Clinic Agreements, the Hospital has agreed to assist in financing the Clinics' implementation of the EHR system by making certain direct, nonrefundable cash payments to the Clinics in order for the three health care organizations to better coordinate care in the local community. As of June 30, 2020, Management estimates that the aggregate amount of such future payments will be approximately $10,000,000, which will be recorded as operating expenses in the Hospital's future statements of revenue, expenses, and changes in net position. The payments made by the Hospital to the Clinics under the Clinic Agreements during the year ended June 30, 2020 were not significant to the accompanying financial statements.

5. Long-term Debt and Other Noncurrent Liabilities

A schedule of changes in the Hospital's long-term debt and other noncurrent liabilities for the years ended June 30, 2020 and 2019 is as follows:

	June 30, 2019	Additions	Reductions	June 30, 2020	Amounts Due Within One Year	Amounts Due After One Year
2020						
Long-term debt						
Note payable - Umpqua Bank (Umpqua)	$ 2,400,284	$ -	$ 1,093,435	$ 1,306,849	$ 1,120,122	$ 186,727
Line of credit - Umpqua	4,191,065	-	513,070	3,677,995	-	3,677,995
Total long-term debt	6,591,349	-	1,606,505	4,984,844	1,120,122	3,864,722
Other noncurrent liabilities						
Medicare accelerated payments	-	31,008,411	-	31,008,411	3,437,588	27,570,823
Net pension liability (see Note 7)	1,135,767	3,715,367	-	4,851,134	-	4,851,134
OPEB (see Note 9)	3,023,728	-	499,938	2,523,790	-	2,523,790
Estimated medical malpractice claims (see Note 10)	856,000	219,000	-	1,075,000	-	1,075,000
Other	541,500	91,264	117,040	515,724	-	515,724
Total other noncurrent liabilities	5,556,995	35,034,042	616,978	39,974,059	3,437,588	36,536,471
Total long-term debt and other noncurrent liabilities	$ 12,148,344	$ 35,034,042	$ 2,223,483	$ 44,958,903	$ 4,557,710	$ 40,401,193

	June 30, 2018	Additions	Reductions	June 30, 2019	Amounts Due Within One Year	Amounts Due After One Year
2019						
Long-term debt						
Note payable - Umpqua	$ 3,462,140	$ -	$ 1,061,856	$ 2,400,284	$ 1,089,562	$ 1,310,722
Line of credit - Umpqua	4,837,243	-	646,178	4,191,065	-	4,191,065
Total long-term debt	8,299,383	-	1,708,034	6,591,349	1,089,562	5,501,787
Other noncurrent liabilities						
Net pension liability	-	1,135,767	-	1,135,767	-	1,135,767
OPEB	3,722,218	-	698,490	3,023,728	-	3,023,728
Estimated medical malpractice claims	948,000	-	92,000	856,000	-	856,000
Other	717,701	81,556	257,757	541,500	-	541,500
Total other noncurrent liabilities	5,387,919	1,217,323	1,048,247	5,556,995	-	5,556,995
Total long-term debt and other noncurrent liabilities	$ 13,687,302	$ 1,217,323	$ 2,756,281	$ 12,148,344	$ 1,089,562	$ 11,058,782

The Hospital has a note payable (the Note Payable) with Umpqua, the proceeds of which were used to help finance the construction of a capital expansion project. Under terms of the Note Payable, the Hospital is required to make payments in monthly installments of approximately $96,000 (including interest at a fixed rate of 2.75%), with any remaining outstanding principal and accrued interest due in July 2024. The Note Payable is secured by a portion of the Hospital's investment portfolio (approximately $29,831,000 as of June 30, 2020) (see Note 2). Outstanding borrowings under the Note Payable as of June 30, 2020 and 2019 were $1,306,849 and $2,400,284, respectively. The Note Payable may be prepaid in whole or in part, with a prepayment penalty of 1%. However, no prepayment penalty will be incurred by the Hospital if the source of prepayment is cash generated by the Hospital rather than borrowings from another lender. The Note Payable includes requirements to meet certain financial and operating covenants.

The Hospital also has a $10,000,000 line of credit agreement (the Line of Credit) with Umpqua which expires in July 2021. Borrowings under the Line of Credit generally bear interest at the current one-month London Interbank Offered Rate (LIBOR) (1.60% as of June 30, 2020) plus 1.75% and are secured by substantially all assets of the Hospital. Outstanding borrowings under the Line of Credit were $3,677,995 and $4,191,065 as of June 30, 2020 and 2019, respectively.

In the event of a default by the Hospital – such as failing to make payments on the Note Payable or the Line of Credit as they are due, or failing to comply with the required financial and operating covenants – all amounts due under both the Note Payable and the Line of Credit may, at Umpqua's discretion, become immediately due and payable by the Hospital. In addition, all amounts owed under the Line of Credit, including all accrued but unpaid interest, would thereafter bear interest at a variable rate equal to the current one-month LIBOR plus 5% until such default is remediated.

As of June 30, 2020, scheduled principal and interest repayments on the Note Payable and the Line of Credit were as follows:

Fiscal Years Ending June 30,	Principal	Interest
2021	$ 1,120,122	$ 24,485
2022	3,864,722	1,278
Total	$ 4,984,844	$ 25,763

6. Net Patient Service Revenue

Net patient service revenue for the years ended June 30, 2020 and 2019 was comprised of the following:

	2020	2019
Charges at established rates	$ 505,764,103	$ 499,647,775
Deductions		
Medicare, Medicaid, and OHP contractual allowances	258,333,497	271,526,695
Other contractual allowances	50,784,228	37,285,232
Provision for bad debts	4,884,049	3,189,414
Charity allowances	2,875,007	2,111,398
Total deductions	316,876,781	314,112,739
Net patient service revenue	$ 188,887,322	$ 185,535,036

Management estimates that the net cost of charity care provided was approximately $1,082,000 and $764,000 for the years ended June 30, 2020 and 2019, respectively. This estimate was based on the Hospital's overall ratio of costs to charges during the year. For the years ended June 30, 2020 and 2019, approximately 6.4% and 5.6%, respectively, of all inpatient admissions were classified as charity care; and approximately 4.3% of all outpatient visits in each year were classified as charity care. The largest proportion of services provided on a charity care basis was for emergency room, cardiology, oncology and imaging services.

7. Defined Benefit Pension Plan

Plan description

The Hospital is required to make periodic contributions to a defined benefit pension plan (Retirement Plan for Employees of Bay Area Health District) (the Defined Benefit Plan). Contributions by participants to the Defined Benefit Plan are not required or permitted.

The Defined Benefit Plan is a single-employer plan administered by The Retirement Plan Company, LLC (TRPC) (through October 14, 2019) and Principal Life Insurance Co. (effective October 15, 2019), with oversight by the Hospital's President/Chief Executive Officer (CEO). The Board has the authority to establish and amend benefit provisions. U.S. Bank, N.A. is the trustee of the Defined Benefit Plan. The Defined Benefit Plan's actuary is Independent Actuaries, Inc. The effective date of the Defined Benefit Plan was February 1, 1974, and it was last restated effective January 1, 2014.

Eligibility for new participants to the Defined Benefit Plan was frozen effective January 1, 2002. Also, effective January 1, 2002, and again on January 1, 2003, participants were permitted to irrevocably elect out of the Defined Benefit Plan and have no future benefits accrue. Employees who are participants in the Defined Benefit Plan are not eligible to participate in the Hospital's separate defined contribution plan (see Note 8) unless this election was made.

Prior to the 2002 amendment, all full-time or permanent part-time employees who were not covered by a separate pension plan sponsored under a collective bargaining agreement were eligible to participate in the Defined Benefit Plan. As of December 31, 2019, membership in the Defined Benefit Plan consisted of 43 active employees, 330 inactive participants currently receiving benefits, and 82 inactive participants not yet receiving benefits. As of December 31, 2018, membership in the Defined Benefit Plan consisted of 51 active employees, 322 inactive participants currently receiving benefits, and 90 inactive participants not yet receiving benefits.

Benefits provided

Benefits under the Defined Benefit Plan are generally calculated as a percentage of the employee's compensation for each year multiplied by the employee's benefit service for that year, accumulated for each year that an employee is eligible to earn benefits. All participants in the Defined Benefit Plan are eligible for normal retirement benefits at age 65. A participant may retire after age 55 with five years of vesting

service, with benefits at a reduced level. If a participant's employment is terminated for reasons other than retirement, disability, or death, the participant will be entitled to receive, upon eligibility for retirement, the benefit developed by the benefit formula multiplied by the vested percentage. The amount of the participant's benefit that is not vested will be forfeited. The Defined Benefit Plan's assets are held in trust, independent of the Hospital, but solely for the purpose of paying the Defined Benefit Plan's benefits and administrative expenses. The Defined Benefit Plan does not issue a separate stand-alone financial report.

Funding policy

The contribution requirements of the Hospital are based on the terms of the Defined Benefit Plan document, which was approved – and may be amended – by the Board. The funding policy of the Defined Benefit Plan provides for an actuarially-computed required contribution using the Individual Entry Age Normal cost method of funding. The objective under this method is to fund all benefits under the Defined Benefit Plan in installments which are level as a percentage of payroll, starting at the original participation dates and continuing until assumed retirements, terminations, disabilities, or deaths. The Hospital's annual required contributions were determined as part of an actuarial valuation as of January 1, 2020.

For the years ended June 30, 2020 and 2019, the Hospital contributed $582,273 and $425,000, respectively, to the Defined Benefit Plan.

Net pension liability

The Hospital's net pension liability (NPL) was measured as of June 30, 2020 and 2019, and the total pension liability used to calculate the NPL was determined by actuarial valuations as of January 1, 2020 and 2019 and projected to June 30, 2020 and 2019, respectively, assuming no actuarial gain or loss.

Actuarial methods and assumptions

Significant actuarial assumptions used in determining the NPL and the Hospital's annual required contributions include the following:

a. Rate of return on the investment of present and future assets at 7.5% per year compounded annually,

b. Projected annual salary increases of 5.5%,

c. Projected increase in annual compensation limits of 3.0%,

d. Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection based on Scale MP-2019 as of January 1, 2020 (the RP2000 Mortality Table with fully generational projection using Scale BB as of January 1, 2019),

e. Turnover rates established by the *V Select and Ultimate Table* in the Employee Termination Study by Roger L. Vaughn, as printed in the 1992 edition of the Pension Forum, and

f. Assumed rates of retirement ranging from 2% at age 55 to 100% at age 65.

The Hospital developed the expected long-term rate of return on assets assumption as a weighted average rate based on the target asset allocation of the Defined Benefit Plan and long-term capital market assumptions. The overall return for each asset class was developed by combining a long-term inflation component and the associated expected real rates of return. The development of the capital market assumptions utilized a variety of methodologies, including, but not limited to, historical analysis, stock valuation models such as dividend discount models and earnings yield models, expected economic growth outlook, and market yield analysis. This analysis resulted in the selection of the 7.5% expected long-term rate of return on Defined Benefit Plan assets for the years ended June 30, 2020 and 2019.

The target asset allocation of the Defined Benefit Plan's assets as of June 30, 2020 and 2019 was as follows:

Asset category	
U.S. large equity	35%
U.S. fixed income	35
International equity	19
U.S. small equity	11
Total	100%

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will be made at rates equal to the actuarially determined contribution rate. Based on that assumption, the Defined Benefit Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in net pension asset (NPA) / (NPL)

The changes in the Hospital's NPA (NPL) for the years ended June 30, 2020 and 2019 were as follows:

	Total Pension Liability (a)	Defined Benefit Plan Fiduciary Net Position (b)	NPA (NPL) (b) – (a)
Balances as of June 30, 2018	$ 58,910,106	$ 60,418,411	$ 1,508,305
Service cost	277,011	-	(277,011)
Interest	4,284,358	-	(4,284,358)
Differences between expected and actual experience	351,926	-	(351,926)
Investment income - net	-	1,844,223	1,844,223
Employer contributions	-	425,000	425,000
Benefit payments	(4,200,618)	(4,200,618)	-
Net changes	712,677	(1,931,395)	(2,644,072)
Balances as of June 30, 2019	59,622,783	58,487,016	(1,135,767)
Service cost	238,232	-	(238,232)
Interest	4,320,286	-	(4,320,286)
Differences between expected and actual experience	(102,579)	-	102,579
Changes in assumptions	811,844	-	(811,844)
Investment income - net	-	970,143	970,143
Employer contributions	-	582,273	582,273
Benefit payments	(4,597,527)	(4,597,527)	-
Net changes	670,256	(3,045,111)	(3,715,367)
Balances as of June 30, 2020	$ 60,293,039	$ 55,441,905	$ (4,851,134)

The change in assumptions above that increased the total pension liability by $811,844 during the year ended June 30, 2020 involved a change in mortality assumptions, which generally increased the life expectancy of participants in the Defined Benefit Plan.

The following presents the Hospital's NPL as of June 30, 2020 and 2019, calculated using the discount rate of 7.5%, as well as what the Hospital's NPA (NPL) would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

	1.0% Decrease (6.5%)	Current Rate (7.5%)	1.0% Increase (8.5%)
2020			
NPL	$ (10,339,955)	$ (4,851,134)	$ (104,411)
2019			
NPA (NPL)	$ (6,640,336)	$ (1,135,767)	$ 3,614,376

Pension expense, deferred outflows of resources, and deferred inflows of resources

Pension expense related to the Defined Benefit Plan was approximately $2,048,000 and $292,000 for the years ended June 30, 2020 and 2019, respectively. Such amounts are classified in salaries and benefits in the accompanying statements of revenue, expenses, and changes in net position.

As of June 30, 2020 and 2019, the Hospital recorded deferred outflows of resources and deferred inflows of resources related to the Defined Benefit Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2020		
Differences between expected and actual experience	$ -	$ (102,579)
Net difference between projected and actual earnings on Defined Benefit Plan assets	6,084,090	(1,339,597)
Assumption changes	811,844	-
Total	$ 6,895,934	$ (1,442,176)
2019		
Differences between expected and actual experience	$ 351,926	$ -
Net difference between projected and actual earnings on Defined Benefit Plan assets	4,698,577	(1,986,925)
Total	$ 5,050,503	$ (1,986,925)

Amounts reported as deferred outflows of resources and deferred inflows of resources as of June 30, 2020 will be recognized in future pension expense as follows:

Fiscal Years Ending June 30,	Deferred Outflows (Inflows) of Resources - Net
2021	$ 2,020,501
2022	510,641
2023	1,113,028
2024	1,157,967
2025	651,621
Total deferred outflows of resources - net	$ 5,453,758

8. Defined Contribution Pension Plans

The Hospital also has a defined contribution pension plan (Bay Area Health District Defined Contribution Plan) (the Defined Contribution Plan), which is intended to qualify under section 401(a) of the Code. The Defined Contribution Plan is a single-employer plan administered by Principal Life Insurance Co. with oversight by the Hospital's CEO. The Board may amend or terminate the Defined Contribution Plan at any time. Charles Schwab is the trustee of the Defined Contribution Plan. The Defined Contribution Plan covers substantially all full-time employees who are not covered by a collective bargaining agreement – other than employees who are members of the Oregon Nurses Association (ONA) – and are not participating in the Defined Benefit Plan (see Note 7).

The Hospital is required to make a basic contribution to the Defined Contribution Plan of 4% of each eligible participant's compensation. In addition, for each participant with at least one year of service (generally 1,000 eligible hours, as defined by the Defined Contribution Plan) and who elects to make tax-deferred contributions to his or her tax sheltered annuity 403(b) account (403(b) account) or 457 deferred compensation account (457 account), the Hospital is required to make a 50% matching contribution to the Defined Contribution Plan up to a maximum matching contribution of 2% of the participant's compensation.

Participants are immediately vested in their own contributions to their 403(b) accounts or 457 accounts, in the Hospital's contributions to the Defined Contribution Plan, and in all related earnings or losses thereon.

Aggregate participant contributions to 403(b) and 457 accounts during the years ended June 30, 2020 and 2019 were approximately $4,195,000 and $3,532,000, respectively. The Hospital's contributions to the Defined Contribution Plan for the years ended June 30, 2020 and 2019 were approximately $2,000,000 and $1,740,000, respectively.

The Hospital also has deferred compensation plans for certain Hospital executives. The amount charged to expense under these plans was approximately $263,000 and $244,000 for the years ended June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, the liabilities related to these plans aggregated approximately $553,000 and $550,000, respectively, and are included in other noncurrent liabilities in the accompanying statements of net position.

9. Postemployment Health Care Plan

Plan description

The Bay Area Health District Health Plan (the Health Plan) is a single-employer defined benefit health care plan administered by the Hospital. The Health Plan provides medical, prescription drug, dental, and vision benefits and/or premium reimbursements to eligible retirees and dependents. The Health Plan may be amended by action of the Board. The Health Plan's actuary is Milliman, Inc. The Health Plan does not issue a separate stand-alone financial report. There are no assets accumulated in a trust for the benefit of the Health Plan.

Benefits provided

The contribution requirements of members of the Health Plan and the Hospital are established, and may be amended, by the Board. Early retirees (age 55 with at least five years of service) pay 100% of the *Consolidated Omnibus Budget Reconciliation Act* (COBRA) premium and may remain in the Health Plan until Medicare eligibility; there is no coverage for early retirees following Medicare eligibility. Other retirees (age 60 with at least twenty years of service) pay 100% of the COBRA premium prior to Medicare eligibility, or are paid up to $500 per month for an outside policy of their choosing. After Medicare eligibility, the Hospital contributes a fixed dollar amount towards the selected American Association of Retired Persons (AARP) Medicare supplemental insurance for those age 60 with at least twenty years of service. No retiree benefits are paid subsequent to 5 years from the date of retirement. In addition, there are certain grandfathered retirees who have different contribution requirements.

Total Other Postemployment Benefits (OPEB) liability

As of June 30, 2020, the Hospital's total OPEB liability of $2,523,790 was measured as of June 30, 2019 and was determined by an actuarial valuation as of July 1, 2018. As of June 30, 2019, the Hospital's total OPEB liability of $3,023,728 was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2018.

Employees covered by benefit terms

As of July 1, 2018 (the actuarial valuation date), the following employees were covered by the benefit terms:

Active employees	397
Retired members	58
Total participants	455

Actuarial methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the Health Plan as understood by the Hospital and members of the Health Plan) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Hospital and members of the Health Plan to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial assumptions used in determining the OPEB liability as of June 30, 2020 and 2019 include the following:

a. Discount rate of 3.50% and 3.87%, respectively,

b. Projected annual salary increases of 3.5%,

c. Projected inflation of 2.5%,

d. Mortality using the RP2014 Mortality Tables for males and females adjusted to reflect the 2006 base table and projected forward using scale MP-2018 on a generational basis,

e. An initial annual health care cost trend rate of 6.50% for pre-65 medical costs, fluctuating to an ultimate rate of 4.25% in 2072. The dental and vision trend rate is 4.00% for all future years, and

f. Entry age normal cost method.

Changes in the total OPEB liability

The changes in the Hospital's total OPEB liability for the years ended June 30, 2020 and 2019 were as follows:

	2020	2019
Balance - beginning of the year	$ 3,023,728	$ 3,722,218
Service cost	123,716	176,673
Interest	116,285	133,672
Effect of changes to benefit terms	(529,927)	-
Effect of economic/demographic gains or losses	-	(84,659)
Effect of assumption changes or inputs	78,042	(591,150)
Benefit payments	(288,054)	(333,026)
Net changes	(499,938)	(698,490)
Balance - end of the year	$ 2,523,790	$ 3,023,728

The changes to benefit terms above that decreased the total OPEB liability by $529,927 during the year ended June 30, 2020 was due to the net effect of adding certain employees subject to a collective bargaining agreement as covered employees under the Health Plan offset by modifying benefits for certain other covered employees.

The following presents the Hospital's OPEB liability as of June 30, 2020 and 2019, calculated using the discount rate of 3.50% and 3.87%, respectively, as well as what the Hospital's OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

2020	1.0% Decrease (2.50%)	Current Rate (3.50%)	1.0% Increase (4.50%)
Total OPEB liability	$ 2,689,879	$ 2,523,790	$ 2,371,503

2019	1.0% Decrease (2.87%)	Current Rate (3.87%)	1.0% Increase (4.87%)
Total OPEB liability	$ 3,242,326	$ 3,023,728	$ 2,824,204

The following presents the Hospital's OPEB liability as of June 30, 2020 and 2019, as well as what the Hospital's OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1.0% Decrease	Current Rate	1.0% Increase
2020			
Total OPEB liability	$ 2,379,786	$ 2,523,790	$ 2,688,896
2019			
Total OPEB liability	$ 2,862,607	$ 3,023,728	$ 3,208,910

OPEB income, expense, deferred outflows of resources, and deferred inflows of resources

OPEB income related to the Health Plan was approximately $415,000 for the year ended June 30, 2020. OPEB expense related to the Health Plan was approximately $173,000 for the year ended June 30, 2019. Such amounts are classified in salaries and benefits in the accompanying statements of revenue, expenses, and changes in net position.

As of June 30, 2020 and 2019, the Hospital recorded deferred outflows of resources and deferred inflows of resources related to the Health Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2020		
Changes of assumptions or inputs	$ 65,848	$ (501,519)
Difference between expected and actual experience	-	(57,783)
Contributions made subsequent to measurement date	265,772	-
Total	$ 331,620	$ (559,302)
2019		
Changes of assumptions or inputs	$ -	$ (625,059)
Difference between expected and actual experience	-	(71,221)
Contributions made subsequent to measurement date	288,054	-
Total	$ 288,054	$ (696,280)

Amounts reported as deferred outflows related to contributions made subsequent to the measurement date will be recognized as a reduction of the total OPEB liability during the year ending June 30, 2021. All other amounts reported as deferred inflows and deferred outflows of resources as of June 30, 2020 will be recognized in future OPEB expense as follows:

Fiscal Years Ending June 30,	Deferred Inflows of Resources
2021	$ (124,784)
2022	(124,784)
2023	(124,784)
2024	(103,991)
2025	(19,989)
Thereafter	4,878
Total deferred inflows of resources - net	$ (493,454)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

10. Commitments and Contingencies

Operating leases

The Hospital leases certain equipment under operating lease agreements which expire at various dates through fiscal year 2021. Total rental expense in fiscal years 2020 and 2019 for all operating leases was approximately $633,000 and $557,000, respectively. As of June 30, 2020, future minimum lease payments under noncancelable operating lease agreements that have initial or remaining lease terms in excess of one year were not significant.

Significant contracts

The Hospital has entered into an agreement with CEP America, LLC (CEP), under which CEP provides emergency physician coverage in the Hospital's emergency department 24 hours a day, seven days a week. The Agreement with CEP is effective through August 15, 2021 and shall renew automatically for additional one-year terms thereafter unless otherwise terminated. In addition to compensating CEP for medical professional services rendered, the Hospital has agreed to pay a minimum monthly administrative fee of $115,000 for this service.

In connection with the operations of the Hospital's cancer center (the Cancer Center), the Hospital entered into a professional services agreement and a management services agreement (collectively, "the Cancer Center Agreements") with North Bend Medical Center, Inc. (NBMC) which expire on June 30, 2021. The Cancer Center Agreements require the Hospital to pay a base annual management fee of approximately $1,581,000 to NBMC for management services provided by NBMC. In addition, under the terms of the Cancer Center Agreements, NBMC will supply certain healthcare personnel to staff the Cancer Center, and the Hospital will compensate NBMC based on production levels, in addition to reimbursing NBMC for certain related employee benefits and payroll taxes.

Medical malpractice insurance

The Hospital, along with other hospitals, participates in an insurance agreement with UMIA Insurance Company, Inc. (UMIA), whereby each participating hospital shares in the payments of medical malpractice claims. The Hospital is responsible for the first $25,000 of indemnity payments related to each of its medical malpractice claims, UMIA is responsible for any amounts from $25,000 to $1,000,000 per claim and $3,000,000 in aggregate, and UMIA carries excess medical malpractice insurance coverage for amounts in excess of $1,000,000 per claim up to $20,000,000 per claim (and $40,000,000 in aggregate for all claims of the Hospital and $80,000,000 in aggregate for all participating hospitals' claims). UMIA carries a second excess medical malpractice insurance coverage for claim amounts in excess of $13,000,000 and $13,000,000 in aggregate which is shared among all participating hospitals' claims. The insurance policies under these arrangements are on a claims-made basis. Under these policies, medical malpractice claims reported during the policy period are covered; however, any medical malpractice claim that has been incurred but not reported (IBNR) to the insurance companies during the policy period is not covered.

Based on an actuarial valuation, the Hospital has recorded estimated liabilities for IBNR medical malpractice claims, which, along with estimated liabilities for reported claims, aggregated $1,075,000 and $856,000 as of June 30, 2020 and 2019, respectively, and are included in other noncurrent liabilities in the accompanying statements of net position (see Note 5). Management believes that these estimated liabilities 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. In addition, the estimate process makes no provision for the future emergence of new classes of losses or types of losses not sufficiently represented in the Hospital's historical experience or which are not yet quantifiable, including the potential impact of the COVID-19 pandemic. There is substantial uncertainty regarding the impact of COVID-19 on the level and nature of business activity, and Management cannot currently estimate the effect of COVID-19 on future malpractice claim exposures, frequency, and severity.

Collective bargaining agreement

As of June 30, 2020, approximately 43% of the Hospital's employees are covered under a collective bargaining agreement (CBA) with the United Food and Commercial Workers Union, which expires on June 30, 2022. In addition, as of June 30, 2020, approximately 25% of the Hospital's employees are covered under a CBA with the ONA, which expires on December 31, 2021.

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 financial position or results of operations.

11. Other Related Parties

The Hospital is a member of Western Oregon Advanced Health, LLC, dba Advanced Health, a limited liability company which was formed to operate as a coordinated care organization in Oregon and whose members consist of various Oregon health care organizations. The Hospital's investment in Advanced Health represents an approximate 5% ownership interest and is not significant to the accompanying financial statements. The Hospital's CEO is on the governing Board of Advanced Health. Under terms of a contract with Advanced Health, the Hospital provides health care services to certain OHP patients (for whom Advanced Health has agreed with OHP to provide health care services) on both a capitated and non-capitated basis. During the year ended June 30, 2020, the Hospital received approximately $15,596,000 and $1,288,000 in capitated and non-capitated payments, respectively, from Advanced Health for the provision of health care services to such OHP patients. During the year ended June 30, 2019, the Hospital received approximately $13,697,000 and $1,547,000 in capitated and non-capitated payments, respectively, from Advanced Health for the provision of health care services to such OHP patients.

12. 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: Level 1 provides the most reliable measure of fair value, whereas Level 3, 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 unadjusted 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.

The Hospital's assets measured at fair value consist of certain assets limited as to use. The following is a description of the valuation methodologies used for the Hospital's assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2020 and 2019.

ETFs – The fair value of ETFs is determined by a quoted market price for identical securities on an active market, in which all inputs are observable.

Mortgage-backed securities, U.S. government agency obligations, corporate and asset-backed obligations, and municipal bonds – The fair value of these securities is determined through reference to prices for identical or similar securities or through model-based techniques (which may consider credit information, observed market information such as market yields, and other factors) in which all significant inputs are observable.

U.S. Treasury securities – The fair value of U.S. Treasury securities is determined by obtaining daily market information from dealers and inter-dealer brokers.

As of June 30, 2020 and 2019, the Hospital's assets measured at fair value on a recurring basis consisted of the following:

	Level 1	Level 2	Level 3	Total
2020				
Assets limited as to use				
ETFs	$ 44,890,037	$ -	$ -	$ 44,890,037
Mortgage-backed securities	-	36,639,442	-	36,639,442
U.S. Government agency obligations	-	6,574,252	-	6,574,252
Corporate obligations	-	12,553,217	-	12,553,217
U.S. Treasury securities	23,134,010	-	-	23,134,010
Municipal bonds	-	1,568,625	-	1,568,625
Total	$ 68,024,047	$ 57,335,536	$ -	$ 125,359,583
2019				
Assets limited as to use				
Mortgage-backed securities	$ -	$ 37,284,264	$ -	$ 37,284,264
U.S. Government agency obligations	-	13,161,772	-	13,161,772
Corporate and asset-backed obligations	-	12,779,509	-	12,779,509
U.S. Treasury securities	8,329,855	-	-	8,329,855
Municipal bonds	-	1,735,705	-	1,735,705
Total	$ 8,329,855	$ 64,961,250	$ -	$ 73,291,105

The methods above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Management believes that the valuation methods used by the Hospital are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements as of the reporting date.

Bay Area Health District, dba Bay Area Hospital

Schedule of Changes in Net Pension Asset (Liability) and Related Ratios for the Defined Benefit Plan

Years Ended June 30, 2020, 2019, 2018, 2017, 2016, 2015, and 2014

	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability							
Service cost	$ 238,232	$ 277,011	$ 325,971	$ 372,678	$ 437,324	$ 567,015	$ 628,412
Interest	4,320,286	4,284,358	4,211,265	4,166,510	4,071,078	3,763,386	3,724,849
Differences between expected and actual experience	(102,579)	351,926	(745,305)	(113,088)	300,510	1,349,078	(931,920)
Change of assumptions	811,844	-	1,295,479	-	-	1,710,973	-
Benefit payments	(4,597,527)	(4,200,618)	(3,931,982)	(3,638,654)	(3,310,934)	(3,010,897)	(2,687,193)
Change in total pension liability - net	670,256	712,677	1,155,428	787,446	1,497,978	4,379,555	734,148
Total pension liability - beginning of year	59,622,783	58,910,106	57,754,678	56,967,232	55,469,254	51,089,699	50,355,551
Total pension liability - end of year (a)	$ 60,293,039	$ 59,622,783	$ 58,910,106	$ 57,754,678	$ 56,967,232	$ 55,469,254	$ 51,089,699
Defined Benefit Plan Fiduciary Net Position							
Investment income - net	$ 970,143	$ 1,844,223	$ 4,536,281	$ 7,035,514	$ 180,733	$ 1,476,289	$ 10,714,683
Employer contributions	582,273	425,000	500,200	919,800	690,000	-	700,000
Benefit payments	(4,597,527)	(4,200,618)	(3,931,982)	(3,638,654)	(3,310,934)	(3,010,897)	(2,687,193)
Change in Defined Benefit Plan fiduciary net position - net	(3,045,111)	(1,931,395)	1,104,499	4,316,660	(2,440,201)	(1,534,608)	8,727,490
Defined Benefit Plan fiduciary net position - beginning of year	58,487,016	60,418,411	59,313,912	54,997,252	57,437,453	58,972,061	50,244,571
Defined Benefit Plan fiduciary net position - end of year (b)	$ 55,441,905	$ 58,487,016	$ 60,418,411	$ 59,313,912	$ 54,997,252	$ 57,437,453	$ 58,972,061
Net pension asset (liability) - end of year (b) - (a)	$ (4,851,134)	$ (1,135,767)	$ 1,508,305	$ 1,559,234	$ (1,969,980)	$ 1,968,199	$ 7,882,362
Defined Benefit Plan fiduciary net position as a percentage of the total pension liability	91.95%	98.10%	102.56%	102.70%	96.54%	103.55%	115.43%
Covered payroll	$ 3,982,471	$ 4,448,511	$ 5,010,047	$ 5,918,890	$ 6,919,373	$ 7,999,679	$ 8,866,401
Net pension asset (liability) as a percentage of covered payroll	(121.81%)	(25.53%)	30.11%	26.34%	(28.47%)	24.60%	88.90%

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

Bay Area Health District, dba Bay Area Hospital

Schedule of Contributions to the Defined Benefit Plan

Years Ended June 30, 2020, 2019, 2018, 2017, 2016, 2015, and 2014

	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 218,192	$ 1,036,821	$ -	$ 481,063	$ 1,409,170	$ -	$ -
Contribution in relation to the actuarially determined contribution	582,273	425,000	500,200	919,800	690,000	-	700,000
Contribution deficiency (excess)	$ (364,081)	$ 611,821	$ (500,200)	$ (438,737)	$ 719,170	$ -	$ (700,000)
Covered payroll	$ 3,982,471	$ 4,448,511	$ 5,010,047	$ 5,918,890	$ 6,919,373	$ 7,999,679	$ 8,866,401
Contribution as a percentage of covered payroll	14.62%	9.55%	9.98%	15.54%	9.97%	0.00%	7.89%

Methods and significant actuarial assumptions used in determining the net pension asset (liability) and the Hospital's annual required contribution include the following:

Actuarial cost method is individual entry age normal							
Rate of return on investments	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Projected annual salary increases	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
Projected increase in annual compensation limits	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection using Scale MP-2019 for 2020
Mortality using the RP2000 Mortality Table with fully generational projection using Scale BB for 2019 and 2018
Mortality using the RP2000 Mortality Table projected to 2020 using Scale BB for 2017, 2016, 2015, and 2014

Turnover rates established by the *V Select and Ultimate Table* in the Employee Termination Study by Roger L. Vaughn, as printed in the 1992 edition of the Pension Forum

Assumed rates of retirement ranging from 2% at age 55 to 100% at age 65

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

Bay Area Health District, dba Bay Area Hospital

Schedule of Changes in Total OPEB Liability and Related Ratios for the Health Plan

Years Ended June 30, 2020, 2019, and 2018

	2020	2019	2018
Total OPEB Liability			
Service cost	$ 123,716	$ 176,673	$ 186,776
Interest	116,285	133,672	114,192
Effect of changes to benefit terms	(529,927)	-	-
Effect of economic/demographic gains or losses	-	(84,659)	-
Effect of assumption changes or inputs	78,042	(591,150)	(187,156)
Benefit payments	(288,054)	(333,026)	(423,119)
Change in total OPEB liability - net	(499,938)	(698,490)	(309,307)
Total OPEB liability - beginning of the year	3,023,728	3,722,218	4,031,525
Total OPEB liability - end of the year	$ 2,523,790	$ 3,023,728	$ 3,722,218
Covered payroll	$ 47,851,625	$ 48,252,462	$ 45,033,885
Total OPEB liability as a percentage of covered payroll	5.27%	6.27%	8.27%

Notes to Schedule of Changes in Total OPEB Liability and Related Ratios for the Health Plan

Changes in benefit terms:
The effect of changes to benefit terms reflects the net impact of the addition of certain employees subject to a collective bargaining agreement as covered employees under the Health Plan during the year ended June 30, 2020 offset by the modification of benefits for certain other covered employees during the year ended June 30, 2020.

Changes in assumptions:
Effect of assumption changes or inputs reflects the changes in the discount rate and salary increases each period. As of June 30, 2020, 2019, and 2018, the discount rates were 3.50%, 3.87%, and 3.58% respectively. As of June 30, 2020, 2019, and 2018, the annual pay increases used 3.50%, 3.50%, and 4.50%, respectively.

Bay Area Health District, dba Bay Area Hospital

Schedule of Revenue, Expenditures, and Changes in Net Position - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2020

	Original/ Final Budget	Actual	Variance
Operating revenue			
Net patient service revenue	$ 190,373,948	$ 188,887,322	$ (1,486,626)
Other revenue	2,229,370	1,616,733	(612,637)
Total operating revenue	192,603,318	190,504,055	(2,099,263)
Expenditures			
Personal services	97,456,095	97,783,168	327,073
Materials and services	81,307,934	84,897,302	3,589,368
Capital outlay	2,000,000	4,720,113	2,720,113
Debt service	1,982,121	1,794,151	(187,970)
Total expenditures	182,746,150	189,194,734	6,448,584
Operating Income	9,857,168	1,309,321	(8,547,847)
Nonoperating revenue (expense)			
Investment income - net	1,620,004	4,708,903	3,088,899
Noncapital contributions	-	763,357	763,357
Government stimulus income	-	527,004	527,004
Losses on disposals of capital assets - net	-	(30,551)	(30,551)
Total nonoperating revenue - net	1,620,004	5,968,713	4,348,709
Income Before Capital Contributions	11,477,172	7,278,034	(4,199,138)
Capital contributions from the Foundation	-	92,872	92,872
Excess of revenue over expenditures	11,477,172	7,370,906	(4,106,266)
Other	(4,146,469)	(1,275,581)	2,870,888
Increase in Net Position	7,330,703	6,095,325	(1,235,378)
Net position - June 30, 2019	181,990,660	181,990,660	-
Net Position - June 30, 2020	$ 189,321,363	$ 188,085,985	$ (1,235,378)

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

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Independent Auditors' Report Required by Oregon State Regulations

To the Board of Directors of
Bay Area Health District, dba Bay Area Hospital

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Bay Area Health District, dba Bay Area Hospital (the Hospital), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 5, 2020.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's financial statements as of and for the year ended June 30, 2020, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules (OAR) 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial statements 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to, the following:

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayment.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources. In connection with these procedures, we intend to perform a Single Audit related to funds received by the Hospital from the U.S. Department of Health and Human Services under the *Coronavirus Aid, Relief and Economic Security Act* and to issue the required Single Audit Reports for the year ended June 30, 2020.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, and 279C).

In connection with our testing, nothing came to our attention that caused us to believe that the Hospital was not in substantial compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of the ORS as specified in OAR 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations* except as follows:

- Expenditures for personal services, materials and services, and capital outlay exceeded the amounts budgeted for the year ended June 30, 2020.
- The notice of the fiscal year 2021 budget hearing was published on the same day as the budget hearing (June 30, 2020); whereas, Oregon budget law requires this notice to be published from five to thirty days prior to the meeting.

OAR 162-10-0230 Internal control

In planning and performing our audit of the 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 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 of the Hospital (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 Hospital's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain other matters that were reported to the Hospital's Board of Directors (the Board) and Management in a separate letter dated November 5, 2020.

Restriction on use

This report is intended solely for the information and use of the Board; Management; others within the Hospital; and the Secretary of State, Oregon Audits Division, and is not intended to be, and should not be, used by anyone other than these specified parties.

Delap LLP
Certified Public Accountants

Steven A. Evans, CPA
Partner

November 5, 2020

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

To the Board of Directors of
Bay Area Health District, dba Bay Area 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 financial statements of Bay Area Health District, dba Bay Area Hospital (the Hospital), which comprise the statement of net position as of June 30, 2020, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 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 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 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 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
Certified Public Accountants

Steven A. Evans, CPA
Partner

November 5, 2020