



LOWER UMPQUA
HOSPITAL DISTRICT

Annual Report

**Years Ended
June 30, 2021 and
2020**

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Organization

June 30, 2021

Members of the Board of Directors as of July 1, 2021 are:

Mr. Ron Kreskey 323 Bittersweet Court Reedsport, OR 97467	-	President
Mr. Leon Bridge 2700 Ridgeway Drive Reedsport, OR 97467	-	Secretary/Treasurer
Ms. Karen Bedard 2165 Winchester Avenue Reedsport, OR 97467	-	Member
Ms. Cheryl Young 3539 South Smith River Road Reedsport, OR 97467	-	Member
Ms. Tamara Szalewski P.O. Box 76 Gardiner, OR 97441	-	Member

Lower Umpqua Hospital District has designated the following registered agent and office as of July 1, 2021:

Registered agent	-	Mr. Stephen H. Miller
Registered office	-	Lower Umpqua Hospital 600 Ranch Road Reedsport, OR 97467

Lower Umpqua Hospital District dba Lower Umpqua Hospital

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Position	12
Statements of Revenue, Expenses, and Changes in Net Position	13
Statements of Cash Flows	14
Notes to Financial Statements	16
Supplementary Information	
Schedule of Revenue, Expenditures, and Changes in Net Position - Budget and Actual (Non-GAAP Budgetary Basis)	35
Independent Auditors' Report Required by Oregon State Regulations	36
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	38



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

Independent Auditors' Report

To the Board of Directors of
Lower Umpqua Hospital District,
dba Lower Umpqua Hospital

Report on the Financial Statements

We have audited the accompanying financial statements of Lower Umpqua Hospital District, dba Lower Umpqua Hospital (the Hospital), as of and for the years ended June 30, 2021 and 2020, 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 Lower Umpqua Hospital District, dba Lower Umpqua Hospital, as of June 30, 2021 and 2020, 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 11 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 35 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 audit 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 29, 2021, 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 29, 2021

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Management's Discussion and Analysis

Years Ended June 30, 2021 and 2020

Management's discussion and analysis of Lower Umpqua Hospital District's, dba Lower Umpqua Hospital's (the Hospital's), financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2021 and 2020. Please read it in conjunction with the Hospital's financial statements, which begin on page 12.

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 and all of fiscal year 2021, 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 31, 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 laid off approximately 10.6% of its 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 of 2020 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. Although most services were restored by the beginning of fiscal year 2021, the Hospital has experienced a significant reluctance by patients to seek the care they need in fear of contracting COVID-19 resulting in cancelled appointments, no shows, and lower than expected emergency department volumes.

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 \$4.3 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 \$1.1 million of such grant funds as revenue during the year ended June 30, 2020, which was recorded as government stimulus income (non-operating revenue) 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 \$3.2 million and was recorded in current liabilities as deferred government stimulus grants in the 2020 statement of net position. During the year ended June 30, 2021, this \$3.2 million was recognized as government stimulus income in the 2021 statement of revenue, expenses, and changes in net position. The current guidance governing the

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Management's Discussion and Analysis

Years Ended June 30, 2021 and 2020

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 \$4.1 million of such expanded payments under the Advance Payment Program. As of June 30, 2021, the Hospital had returned approximately \$526,000 of such payments to Medicare through withholding from subsequent Medicare payments to the Hospital. As of June 30, 2020, the Hospital had not returned any such payments to Medicare. All such amounts received under the Advance Payment Program and not yet returned to Medicare are recorded as Medicare accelerated payments in the statements of net position (with an estimated breakdown by Management between current and noncurrent portions).

Also, under the CARES Act, Paycheck Protection Program (PPP) loans were made available to small businesses and other organizations as a direct incentive to keep their workers on the payroll throughout the crisis. Accordingly, in April 2020, the Hospital obtained a PPP loan in the amount of \$2,995,100 from Umpqua Bank (Umpqua). The Hospital met the requirements of the program to have this loan forgiven by the Small Business Administration (the SBA) in June 2021 and recorded the forgiven loan balance as a gain on PPP loan extinguishment in fiscal year 2021. In March 2021, the Hospital received a second PPP loan in the amount of \$2.0 million. This PPP loan is reflected in the 2021 statement of net position as a non-current liability and was forgiven by the SBA in August 2021. In addition to the PPP funds, the Hospital has received various other grants and financial assistance totaling approximately \$79,000 and \$430,000 during the years ended June 30, 2021 and 2020, respectively, to assist with COVID-19 related costs, and such amounts are included in noncapital grants in the Hospital's statements of revenue, expenses, and changes in net position. Furthermore, the Hospital has received an additional \$100,000 during the year ended June 30, 2021 that is recorded as a deferred government stimulus grant in the 2021 statement of net position. In November 2021, the Hospital was granted up to \$200,000 of financial assistance from the County (pass-through grant from the U.S. Department of the Treasury) to be used exclusively for COVID-19 vaccinations.

Financial highlights

- The Hospital's net position of approximately \$10.1 million as of June 30, 2021 increased by approximately \$2.8 million (or 38.6%) during fiscal year 2021 and decreased by approximately \$25,000 (or 0.3%) during fiscal year 2020.
- In fiscal year 2021, actual net patient service revenue was less than budgeted net patient service revenue by approximately \$1.9 million, and net patient service revenue increased from fiscal year 2020 by approximately \$762,000. In fiscal year 2020, actual net patient service revenue was less than budgeted net patient service revenue by approximately \$2.2 million, and net patient service revenue decreased from fiscal year 2019 by approximately \$2.0 million.
- The Hospital reported operating losses of approximately \$5.5 million, \$3.3 million, and \$1.6 million, in fiscal years 2021, 2020, and 2019, respectively. The larger operating losses in fiscal years 2021 and 2020 are primarily attributable to the impact of the COVID-19 pandemic, as discussed above.
- The Hospital's total nonoperating revenue - net was approximately \$8.3 million, \$3.3 million, and \$1.9 million in fiscal years 2021, 2020, and 2019, respectively. The significant increase in fiscal year 2021 was primarily the result of the recognition of approximately \$3.2 million of the Provider Relief Funds and the approximate \$3.0 million PPP loan that was forgiven compared to approximately \$1.1 million of the Provider Relief Funds recognized in 2020.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Management's Discussion and Analysis

Years Ended June 30, 2021 and 2020

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 and liabilities 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 and liabilities – 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, 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 its assets and liabilities as reported in the statements of net position on page 12. The Hospital's net position increased by approximately \$2.8 million (38.6%) and decreased by approximately \$25,000 (0.3%) in fiscal years 2021 and 2020, respectively, as you can see from Tables 1 and 2 below.

Table 1: Assets, liabilities, and net position

	June 30,		
	2021	2020	2019
Assets			
Current assets	\$ 14,731,940	\$ 13,827,679	\$ 7,749,759
Assets limited as to use - net of current portion	1,082,082	3,688,355	694,026
Total capital assets - net	5,086,737	4,854,416	4,136,019
Other noncurrent assets - net	453,440	453,440	579,290
Total assets	21,354,199	22,823,890	13,159,094
Liabilities			
Long-term obligations - net of current portion	1,823,936	2,321,357	2,617,247
Other current and noncurrent liabilities	9,437,051	13,219,102	3,233,465
Total liabilities	11,260,987	15,540,459	5,850,712
Net position			
Net investment in capital assets	3,218,354	2,674,475	1,661,474
Restricted for debt service	333,880	333,880	682,137
Unrestricted	6,540,978	4,275,076	4,964,771
Total net position	\$ 10,093,212	\$ 7,283,431	\$ 7,308,382

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Management's Discussion and Analysis

Years Ended June 30, 2021 and 2020

Total assets decreased approximately \$1.5 million from June 30, 2020 to June 30, 2021, primarily due to decreases in assets limited as to use of approximately \$6.1 million offset by increases in cash and cash equivalents of approximately \$3.8 million and net patient accounts receivable of \$324,000. Assets limited as to use decreased primarily as a result of the recognition as revenue of the aforementioned Provider Relief Funds and a reduction in the remaining Advanced Payment Program funds. Cash and cash equivalents increased primarily as a result of the transfer from assets limited as to use due to the Provider Relief Funds being used for their intended purpose (i.e., since the Hospital was able to recognize the related revenue, such funds were no longer limited as to use). The increase in net patient accounts receivable was due to converting, in the middle of a pandemic, from one patient account system to another. Training was done remotely and was not particularly effective. Early in fiscal year 2022, the Hospital engaged an outside firm to complete the training process onsite.

The Hospital's total long-term obligations (including current and non-current portions) decreased approximately \$437,000 from June 30, 2020 to June 30, 2021 due to the ordinary 2021 scheduled principal payments on long-term obligations. Other current and noncurrent liabilities decreased approximately \$3.8 million due to the recognition of approximately \$3.2 million of deferred government stimulus grants related to the Provider Relief funds and the reduction of \$526,000 of the amount due to Medicare for the Medicare Advanced Payments, as discussed above.

The Hospital's net position increased by approximately \$2.8 million from June 30, 2020 to June 30, 2021, as a result of total nonoperating revenue - net of approximately \$8.3 million, offset by an operating loss of approximately \$5.5 million in fiscal year 2021.

Total assets increased approximately \$9.7 million from June 30, 2019 to June 30, 2020, primarily due to increases in assets limited as to use of approximately \$11.4 million and net capital assets of approximately \$718,000, offset by a decrease in net patient accounts receivable of approximately \$1.6 million. Assets limited as to use increased due to the receipt of the aforementioned Provider Relief Funds, the Advanced Payment Program funds, the proceeds from the PPP loan, and the other grants and financial assistance to help the Hospital with COVID-19 related costs. The increase in net capital assets was primarily due to expenditures for the new electronic medical records (EMR) system, renovating the recently purchased "church" building, and improvements to the Hospital's HVAC (heating, ventilation, and air conditioning) system, offset by fiscal year 2020 depreciation expense. The decrease in net patient accounts receivable was due to more effective billing and collection efforts, as well as the slow-down in activity from the Oregon-mandated limitation on non-emergent procedures late in fiscal year 2020 as a result of the COVID-19 pandemic.

The Hospital's total long-term obligations (including current and non-current portions) decreased approximately \$295,000 from June 30, 2019 to June 30, 2020 due to the 2020 scheduled principal payments on long-term obligations, partially offset by a new capital lease of certain imaging equipment. Other current and noncurrent liabilities increased approximately \$10.0 million due to receipt of the PPP loan of approximately \$3.0 million, deferred government stimulus grants of approximately \$3.2 million, and the Advance Payment Program funds of approximately \$4.1 million as a response to the COVID-19 pandemic.

The Hospital's net position decreased by approximately \$25,000 from June 30, 2019 to June 30, 2020, as a result of total nonoperating revenue - net of approximately \$3.3 million in fiscal year 2020, offset by an operating loss of approximately \$3.3 million in fiscal year 2020.

Operating results and changes in the Hospital's net position

In fiscal year 2021, the Hospital's net position increased by approximately \$2.8 million (or 38.6%), as shown in Table 2 below. This increase is comprised of various components, and it represents an improvement from the Hospital's results in fiscal year 2020 which experienced a decrease in net position of approximately \$25,000.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Management's Discussion and Analysis

Years Ended June 30, 2021 and 2020

Table 2: Operating results and changes in net position

	Years Ended June 30,		
	2021	2020	2019
Operating revenue			
Net patient service revenue	\$ 24,652,442	\$ 23,890,927	\$ 25,841,188
Other revenue	1,973,237	1,976,775	1,973,640
Total operating revenue	26,625,679	25,867,702	27,814,828
Operating expenses			
Salaries and benefits	17,352,467	16,806,446	16,195,968
Supplies and other	6,744,391	5,970,945	6,025,856
Professional fees and purchased services	7,163,641	5,707,184	6,280,818
Depreciation and amortization	838,635	713,970	954,240
Total operating expenses	32,099,134	29,198,545	29,456,882
Operating loss	(5,473,455)	(3,330,843)	(1,642,054)
Nonoperating revenue (expenses)			
Property and other county taxes - net	2,122,759	2,038,194	2,036,924
Government stimulus income	3,198,319	1,063,486	-
Gain on PPP loan extinguishment	2,995,100	-	-
Noncapital grants	79,028	441,762	35,114
Investment income	22,527	21,197	17,140
Gains (losses) on disposals of capital assets - net	-	(164,996)	1,474
Interest expense	(147,862)	(116,560)	(130,956)
Other - net	2,833	(31,126)	(26,540)
Total nonoperating revenue - net	8,272,704	3,251,957	1,933,156
Income (loss) before capital contributions	2,799,249	(78,886)	291,102
Capital contributions	10,532	53,935	18,559
Increase (decrease) in net position	2,809,781	(24,951)	309,661
Net position - beginning of year	7,283,431	7,308,382	6,998,721
Net position - end of year	\$ 10,093,212	\$ 7,283,431	\$ 7,308,382

Operating loss

The first component of the overall change in the Hospital's net position is its operating loss – generally, the difference between net patient service revenue and the expenses incurred to perform those services. The Hospital reported an operating loss of approximately \$5.5 million in fiscal year 2021, compared to operating losses of approximately \$3.3 million and \$1.6 million in fiscal years 2020 and 2019, respectively.

The Hospital normally incurs operating losses in fulfillment of its mission to provide access to a full range of basic, affordable medical services to the residents of its district. However, when the Hospital was incorporated as a municipal corporation in Douglas County (the County) in 1954, it was agreed that a portion of its costs would be subsidized by property tax revenue, making the facility more affordable for the County's lower-income residents. Accordingly, the Hospital's operating losses are generally offset by property taxes and other nonoperating revenue.

The Hospital's loss from operations was approximately \$5.5 million in fiscal year 2021 compared to the Hospital's budgeted operating income of approximately \$271,000 for the fiscal year, and it represents an increase in operating loss of approximately \$2.2 million from the operating loss of approximately \$3.3 million in fiscal year 2020.

Salaries and benefits increased by approximately \$546,000 (3.2%) over the prior year primarily due to union negotiated wage and benefit increases of approximately 3.0%. The Hospital currently has two unions with whom it must negotiate. As of June 30, 2021, the United Food and Commercial Workers union (UFCW) covered

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Management's Discussion and Analysis

Years Ended June 30, 2021 and 2020

approximately 57% of the Hospital's employees, and the Teamsters Local 206 union (Teamsters) covered approximately 13%. The Hospital's agreement with the UFCW expires on November 30, 2023, and its agreement with the Teamsters expires on May 31, 2022.

Supply costs increased approximately \$160,000 (5.4%) as a result of inflation, as well as significant increases in the use of personal protective equipment due to COVID-19. Other operating expenses, consisting of items such as rentals, minor equipment, repairs, recruiting fees, insurance, and provider taxes increased approximately \$614,000 (20.4%). Most of this increase (approximately \$493,000) was for fees associated with the new electronic health records (EHR)/billing computer system and an increase in provider taxes of approximately \$216,000. The Hospital utilizes a group purchasing organization to help ensure that the best contract pricing may be achieved. Professional fees and purchased services expenses increased from fiscal year 2020 to fiscal year 2021. Total expenditures for professional fees and purchased services were approximately \$7.2 million in 2021 compared to approximately \$5.7 million in fiscal year 2020, an increase of approximately 25.5%. The Hospital experienced a complete turn-over in its C-Suite starting in approximately October 2020. While new, permanent replacements were recruited, the Hospital relied heavily on interim executives which increased costs by approximately \$575,000. Additionally, there was high usage of locums providers in the Hospital's Rural Health Clinic which increased costs by approximately \$641,000. Finally, the recruitment for lab professionals (including a lab manager) was very difficult requiring extensive use of travelers which added approximately \$290,000 to the Hospital's costs.

The Hospital oftentimes provides care for patients who have little or no health insurance coverage or other means of repayment. When patients meet the Hospital's established charity care guidelines, all or part of their bill is written off. The charges written off for services provided to these patients were approximately \$150,000 and \$237,000 in fiscal years 2021 and 2020, respectively. Because there is no expectation of repayment, charity care is not reported as net patient service revenue of the Hospital. The Hospital's provision for bad debts was approximately \$725,000 and \$1.4 million in fiscal years 2021 and 2020, respectively.

In addition to the charity and other uncompensated care provided, the Hospital provides care to patients who qualify for government-sponsored programs such as Medicare, Medicaid, and the Oregon Health Plan (OHP), for which 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 was approximately \$18.0 million and \$17.7 million in fiscal years 2021 and 2020, respectively.

The Hospital's loss from operations of approximately \$3.3 million in fiscal year 2020 was approximately \$306,000 greater than the Hospital's budgeted operating loss for the fiscal year and represents an increase in operating loss of approximately \$1.7 million from the operating loss of approximately \$1.6 million in fiscal year 2019. The deterioration in fiscal year 2020 from 2019 was due to the COVID-19 pandemic and the halting of all non-emergency services late in the fiscal year.

Salaries and benefits increased by approximately \$610,000 in fiscal year 2020 over fiscal year 2019 due to an increase in employees who were previously contract employees, along with an increase in benefits due to a large increase in the health care insurance plan cost. In addition, salary increases included an approximate 2.7% increase related to union contractual increases in wages and other benefits provided under the union employee health plans.

As a result of decreased volumes across all departments from the COVID-19 pandemic, total expenditures for supplies and pharmaceuticals were approximately \$5,971,000 in 2020 compared to approximately \$6,026,000 in fiscal year 2019, a decrease of approximately 0.9%. Professional fees and purchased services expenses decreased from fiscal year 2019 to fiscal year 2020. Total expenditures for professional fees and purchased services were approximately \$5.7 million in 2020 compared to approximately \$6.3 million in fiscal year 2019, a decrease of approximately 9.1%. This was primarily due to the impact of volume decreases, as discussed above.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Management's Discussion and Analysis

Years Ended June 30, 2021 and 2020

The gross charges written-off related to charity care patients were approximately \$237,000 and \$245,000 in fiscal years 2020 and 2019, respectively. The Hospital's provision for bad debts was approximately \$1.4 million and \$1.2 million in fiscal years 2020 and 2019, respectively. The aggregate amount of Medicare, Medicaid, and OHP contractual deductions was approximately \$17.7 million and \$19.5 million in fiscal years 2020 and 2019, respectively.

Nonoperating revenue and expenses

Nonoperating revenue and expenses consist primarily of property and other county tax revenue, interest income, interest expense, and noncapital grants. In addition, in fiscal years 2021 and 2020, nonoperating revenue and expenses included approximately \$3.2 million and \$1.1 million, respectively, of Provider Relief Funds recognized as government stimulus income and, in fiscal year 2021, an approximate \$3 million gain on PPP loan extinguishment. Nonoperating revenues and expenses in fiscal year 2020 also included noncapital grants of approximately \$442,000 and net losses on disposals of capital assets of approximately \$165,000, as previously discussed.

Contributions and grants

The Hospital generally receives very little in the form of cash contributions and other donations and grants. In fiscal years 2021, 2020, and 2019, there were approximately \$11,000, \$54,000, and \$19,000, respectively, in capital contributions. In addition, in fiscal years 2021, 2020, and 2019, the Hospital received noncapital grants of approximately \$79,000, \$442,000, and \$35,000, respectively, of which most in fiscal years 2021 and 2020 was from various grants and financial assistance to help with COVID-19 related costs. Some donations are made to the Hospital via Lower Umpqua Hospital Foundation, a separate tax-exempt nonprofit corporation.

The Hospital's cash flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenue and expense, as discussed earlier. The largest cash outflow each year is typically payments to employees, which totaled approximately \$17.2 million, \$16.8 million, and \$16.0 million in fiscal years 2021, 2020, and 2019, respectively; and payments to suppliers and contractors, which totaled approximately \$13.5 million, \$11.9 million, and \$13.0 million, in fiscal years 2021, 2020, and 2019, respectively.

Capital assets

As of June 30, 2021, the Hospital had approximately \$5.1 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In fiscal years 2021, 2020, and 2019, the Hospital acquired new equipment and made capital improvements costing approximately \$1.1 million, \$1.6 million, and \$728,000, respectively. In fiscal year 2021, the Hospital made capital expenditures for a new ambulance and a new roof, as well as several other large capital items. As mentioned previously, in fiscal year 2020, the Hospital made capital expenditures for the new EHR system, renovating the recently purchased "church" building, and improvements to the Hospital's HVAC system.

Long-term obligations

As of June 30, 2021, the Hospital had approximately \$2.3 million in long-term obligations outstanding (including the current portion). This compares to approximately \$2.8 million and \$3.1 million in long-term obligations outstanding as of June 30, 2020 and 2019, respectively. Long-term obligations outstanding as of June 30, 2021 consist of a note payable owed to Umpqua; a note payable owed to the County; a capital lease agreement with U.S. Bancorp Government Leasing and Finance, Inc.; a capital lease agreement with First Business Equipment Finance, LLC; and a capital lease agreement with GE Healthcare. The note payable to Umpqua was to refinance the Hospital's 1996 Revenue Installment (Health Care Facilities) Bond, Series A and B and a prior note payable to Umpqua. The note payable to the County relates to the Master Heights Subdivision, as discussed below.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Management's Discussion and Analysis

Years Ended June 30, 2021 and 2020

Master Heights subdivision

Among the many objectives contained within the Hospital's strategic plan are objectives to promote economic development within its community and to help ensure that the long-term health needs of the community are met. Accordingly, the Hospital is always exploring ways to facilitate local access to new services that, while needed, may not be practical for the Hospital to own and operate. For a number of years, the Hospital was engaged in an effort to bring an assisted living facility (ALF) to its community, but – for several reasons – it was not the Hospital's intention to own and operate the facility. The Hospital was also concerned about a lack of suitable housing in Reedsport. That lack of housing made it very difficult to recruit staff to Reedsport to fill the Hospital's employment vacancies.

To achieve these objectives, in 2006, the Hospital entered into a venture with Reedsport Properties Limited (the Developer) to develop both housing and an ALF. RPL, the owner of over 50 prime, undeveloped acres in Reedsport, donated approximately three acres to the Hospital for a future ALF site. The Hospital agreed to assist RPL in the development of approximately 17 acres into premium home sites. The Hospital entered into a loan agreement to borrow up to \$850,000 from the County for the construction of a road and all supporting infrastructure to the donated site. The Hospital loaned the proceeds from those borrowings to RPL for the construction of this road and supporting infrastructure so that RPL could develop approximately 14 home sites, known as the Master Heights Subdivision, on the 17 acres. The entire 50 acres have been pledged as collateral for the County's loan to the Hospital. All of the net proceeds from the sale of these home sites were to be remitted by RPL to the Hospital until the amount due from RPL was repaid. The Hospital was then going to repay the County.

Because of the economic downturn, changes in third-party health care payment rates, increases in building costs, and the changing demographics of the service area, it has been decided to stop actively pursuing the ALF. During the year ended June 30, 2018, the County Loan Agreement was modified (the Modification) such that if the Hospital repays the County \$612,000 by May 30, 2028, the debt to the County will be deemed to be fully repaid. If \$612,000 is not paid by the Hospital to the County by May 30, 2028, the amount owed to the County is approximately \$1,134,000 (approximately \$845,000 originally loaned from the County to the Hospital plus accrued interest as of June 30, 2017 of approximately \$289,000). Also, under the Modification, interest is no longer being charged by the County under the County Loan Agreement. Similarly, the Hospital entered into a modification of its agreement with RPL such that if RPL pays the Hospital \$612,000 by May 30, 2028, the receivable from the Developer will be deemed to be fully repaid. Also, if RPL does not pay the Hospital \$612,000 by May 30, 2028, this modification will be considered to be null and void, and RPL will owe the Hospital approximately \$1,134,000. During fiscal year 2019, one of the home sites was sold, and, accordingly, RPL remitted approximately \$33,000 to the Hospital which the Hospital in turn remitted to the County, reducing the receivable from RPL and payable to the County to approximately \$579,000 as of June 30, 2019. During fiscal year 2020, four additional home sites were sold, and, accordingly, RPL remitted approximately \$126,000 to the Hospital, reducing the receivable from RPL to approximately \$453,000 as of June 30, 2020. The Hospital did not remit the \$126,000 to the County until August 2020; accordingly, the payable to the County as of June 30, 2020 remained at approximately \$579,000. During fiscal year 2021, there were no home site sales. Accordingly, the receivable remained at \$453,000. However, subsequent to June 30, 2021, four additional lots were sold for approximately \$131,000, and such amount was received from the Developer and paid to the County. In addition, the Developer paid the Hospital approximately \$41,000 which represented the proceeds of certain tax refunds, and the Hospital remitted such amount to the County. Management believes that it is remote that the approximate \$453,000 will not be paid by the Developer to the Hospital by May 30, 2028 (of which, approximately \$172,000 was received since June 30, 2021), and that it is remote that the Hospital will not pay the County the approximate \$453,000 by May 30, 2028 (of which, approximately \$172,000 was paid since June 30, 2021). Accordingly, the receivable from RPL and the note payable to the County are recorded as approximately \$453,000 as of June 30, 2021.

Other economic factors

The Hospital is the largest employer in Reedsport, followed by the local school district. In recent years, the Southern Oregon Coast 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. Housing

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Management's Discussion and Analysis

Years Ended June 30, 2021 and 2020

prices have become a bit more stable during the last few years, but unemployment is still a major factor in the local economy. The Hospital works with local agencies and businesses to help draw industry and business to the Central Oregon coast and, in particular, Reedsport. The greatest factor that influences the Hospital's overall finances is its ability to recruit and retain adequate medical staff. This factor is common to all hospitals on the Oregon coast and to most rural hospitals nationwide. As salaries for medical providers increase because of competition, health care reform has all but guaranteed that payment rates will diminish. As a result, the Hospital has and will continue to incur significant net expense to bring these providers to Reedsport and to keep them here. The Hospital's participation in projects like the Master Heights Subdivision and a partnership with the local school district were, in part, to help ensure that the resources and infrastructure are available in Reedsport to assist the Hospital with this recruitment and retention issue.

The Hospital continues to face many of the same challenges that small, rural hospitals across our nation face, including concentration of credit risk, high Medicare and Medicaid populations, economically challenged communities, tight labor markets, and difficulties in recruiting and maintaining an adequate medical staff to serve the diverse needs of the community. In addition, as mentioned previously, COVID-19 has had a significant impact on the local economy. 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 continue to suppress job growth. The Hospital continues to receive significant tax support from the community; and management continues to closely monitor external forces that affect the Hospital's financial position in order to make timely operational changes, as necessary, to adapt.

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 John Chivers, Chief Financial Officer, at Lower Umpqua Hospital, 600 Ranch Road, Reedsport, Oregon 97467.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Statements of Net Position

As of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 3,992,268	\$ 229,786
Patient accounts receivable - net of allowance for doubtful accounts of \$735,048 (\$655,886 in 2020)	3,675,002	3,350,797
Estimated third-party payor settlements receivable - net	198,534	99,903
Property taxes receivable	227,419	247,114
Supplies inventory	827,982	824,980
Current portion of assets limited as to use	4,973,795	8,417,764
Prepaid expenses and other current assets	836,940	657,335
Total current assets	<u>14,731,940</u>	<u>13,827,679</u>
Assets limited as to use - net of current portion	<u>1,082,082</u>	<u>3,688,355</u>
Capital assets		
Depreciable capital assets - net	4,355,965	3,645,108
Nondepreciable capital assets	730,772	1,209,308
Total capital assets - net	<u>5,086,737</u>	<u>4,854,416</u>
Other noncurrent assets	453,440	453,440
Total Assets	<u><u>\$ 21,354,199</u></u>	<u><u>\$ 22,823,890</u></u>
Liabilities and Net Position		
Current liabilities		
Accounts payable	\$ 1,044,647	\$ 582,501
Accrued liabilities		
Payroll, payroll taxes, and withholdings	593,325	520,219
Paid time off	836,045	726,464
Other	334,483	208,511
Current portion of long-term obligations	497,887	437,874
Deferred government stimulus grants	100,000	3,198,319
Current portion of Medicare accelerated payments	2,867,274	812,749
Total current liabilities	<u>6,273,661</u>	<u>6,486,637</u>
Noncurrent liabilities		
Medicare accelerated payments - net of current portion	736,869	3,317,365
Long-term obligations - net of current portion	1,823,936	2,321,357
Payroll protection program (PPP) loans payable	2,006,521	2,995,100
Estimated medical malpractice claims liability	420,000	420,000
Total noncurrent liabilities	<u>4,987,326</u>	<u>9,053,822</u>
Total liabilities	<u>11,260,987</u>	<u>15,540,459</u>
Net position		
Net investment in capital assets	3,218,354	2,674,475
Restricted for debt service	333,880	333,880
Unrestricted	6,540,978	4,275,076
Total net position	<u>10,093,212</u>	<u>7,283,431</u>
Total Liabilities and Net Position	<u><u>\$ 21,354,199</u></u>	<u><u>\$ 22,823,890</u></u>

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

Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Statements of Revenue, Expenses, and Changes in Net Position
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenue		
Net patient service revenue - net of provision for bad debts of \$724,751 (\$1,369,297 in 2020)	\$ 24,652,442	\$ 23,890,927
Other revenue	1,973,237	1,976,775
Total operating revenue	<u>26,625,679</u>	<u>25,867,702</u>
Operating expenses		
Salaries and benefits	17,352,467	16,806,446
Supplies and other	6,744,391	5,970,945
Professional fees and purchased services	7,163,641	5,707,184
Depreciation and amortization	838,635	713,970
Total operating expenses	<u>32,099,134</u>	<u>29,198,545</u>
Operating Loss	<u>(5,473,455)</u>	<u>(3,330,843)</u>
Nonoperating revenue (expenses)		
Property and other county taxes - net	2,122,759	2,038,194
Government stimulus income	3,198,319	1,063,486
Gain on PPP loan extinguishment	2,995,100	-
Noncapital grants	79,028	441,762
Investment income	22,527	21,197
Losses on disposals of capital assets - net	-	(164,996)
Interest expense	(147,862)	(116,560)
Other - net	2,833	(31,126)
Total nonoperating revenue - net	<u>8,272,704</u>	<u>3,251,957</u>
Income (Loss) Before Capital Contributions	<u>2,799,249</u>	<u>(78,886)</u>
Capital contributions	10,532	53,935
Increase (Decrease) in Net Position	<u>2,809,781</u>	<u>(24,951)</u>
Net position - beginning of year	<u>7,283,431</u>	<u>7,308,382</u>
Net Position - End of Year	<u>\$ 10,093,212</u>	<u>\$ 7,283,431</u>

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

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 24,229,606	\$ 25,539,713
Receipt of Medicare accelerated payments	-	4,130,114
Payments to suppliers and contractors	(13,454,074)	(11,902,422)
Payments to employees	(17,169,780)	(16,785,507)
Other receipts and payments - net	1,398,819	2,004,766
Net cash provided (used) by operating activities	<u>(4,995,429)</u>	<u>2,986,664</u>
Cash Flows From Noncapital Financing Activities		
Receipt of government stimulus grants	100,000	4,261,805
Proceeds from PPP loans	2,006,521	2,995,100
Property and other county taxes - net	2,142,454	2,047,454
Noncapital grants	79,028	441,762
Net cash provided by noncapital financing activities	<u>4,328,003</u>	<u>9,746,121</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(1,070,956)	(1,452,638)
Principal paid on long-term obligations	(437,408)	(439,329)
Interest paid on long-term obligations	(147,862)	(116,560)
Capital contributions	10,532	53,935
Other - net	2,833	(31,126)
Net cash used by capital and related financing activities	<u>(1,642,861)</u>	<u>(1,985,718)</u>
Cash Flows From Investing Activities		
Decrease (increase) in assets limited as to use - net	6,050,242	(11,412,093)
Decrease in other noncurrent assets	-	125,850
Investment income	22,527	21,197
Net cash provided (used) by investing activities	<u>6,072,769</u>	<u>(11,265,046)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,762,482	(517,979)
Cash and cash equivalents - beginning of year	229,786	747,765
Cash and Cash Equivalents - End of Year	<u>\$ 3,992,268</u>	<u>\$ 229,786</u>

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

Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities		
Operating loss	\$ (5,473,455)	\$ (3,330,843)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	838,635	713,970
Provision for bad debts	724,751	1,369,297
Changes in certain operating assets and liabilities		
Patient accounts receivable	(1,048,956)	210,172
Estimated third-party payor settlements receivable - net	(98,631)	69,317
Supplies inventory	(3,002)	(40,508)
Prepaid expenses and other current assets	(179,605)	204,327
Accounts payable	462,146	(329,264)
Accrued liabilities	308,659	(9,918)
Medicare accelerated payments	(525,971)	4,130,114
Net cash provided (used) by operating activities	<u>\$ (4,995,429)</u>	<u>\$ 2,986,664</u>
 Supplemental Disclosure of Non-Cash Financing Activity		
Property and equipment acquired under capital lease obligation	<u>\$ -</u>	<u>\$ 144,725</u>

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

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

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

Business and organization

Lower Umpqua Hospital District, dba Lower Umpqua Hospital (the Hospital), was incorporated as a municipal corporation in Douglas County, Oregon (the County) in October 1954. The Hospital provides various health care and health care related services to the citizens of Reedsport, Oregon and to others in the County area.

The Lower Umpqua Hospital Foundation, Inc. (the Foundation) was established to engage in and conduct charitable, educational, and scientific activities and to raise funds in support of the Hospital. The Foundation is a separate nonprofit corporation and a tax-exempt organization under the provisions of the Internal Revenue Code (the Code).

Basis of presentation and accounting

The accompanying financial statements include the accounts and transactions of the Hospital. The Foundation is managed by an independent Board of Directors and is not financially accountable to the Hospital. The accompanying financial statements do not include the accounts and transactions of the Foundation, 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 of the Hospital (Management) to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the 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 31, 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 laid off approximately 10.6% of its 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 subsequent to this period as the State of Oregon (Oregon) and local governments began to re-open and allow for non-emergent procedures. The Hospital's operating structure

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

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, the Hospital took actions that included significantly reducing cash operating expenses and deferring non-essential expenditures at the height of the crisis. Although the COVID-19 pandemic waned early in the summer of 2021, the Delta variant significantly impacted the Hospital later in the summer and into the fall.

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 (including variants), 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 \$4,261,805 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 \$3,198,319 and \$1,063,486 of such grant funds as revenue during the years ended June 30, 2021 and 2020, respectively, which is recorded as government stimulus income in the accompanying statements of revenue, expenses, and changes in net position. As of June 30, 2020, the remaining unrecognized amount of such funds was \$3,198,319 and was recorded in current liabilities as deferred government stimulus grants in the accompanying 2020 statement of net position. As of June 30, 2021, there was no remaining unrecognized amount of such funds. 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 provided 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 \$4,130,114 of such expanded payments under the Advance Payment Program. As of June 30, 2021, the Hospital had returned \$525,971 of such payments to Medicare through withholding from subsequent Medicare payments to the Hospital. As of June 30, 2020, the Hospital had not returned any such payments to Medicare. All such amounts received under the Advance Payment Program are recorded as Medicare accelerated payments in the accompanying statements of net position (with an estimated breakdown by Management between current and noncurrent portions).

Also, under the CARES Act (and the subsequent passing of the *Consolidated Appropriations Act, 2021* (the CAA) in December 2020), Paycheck Protection Program (PPP) loans were made available to small businesses and other organizations as a direct incentive to keep their workers on the payroll throughout the crisis. Accordingly, in March 2021 and April 2020, the Hospital obtained PPP loans in the amount of \$2,000,000 (the March 2021 PPP Loan) and \$2,995,100 (the April 2020 PPP Loan) from Umpqua Bank (Umpqua), respectively (see Note 7). As of June 30, 2021, the Hospital has accrued \$6,521 of interest on the March 2021 PPP Loan. The Hospital has elected to adopt the debt model to account for its PPP loans

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

in accordance with GASB accounting standards. Under the terms of the CARES Act and the CAA, PPP loan recipients may apply for and be granted forgiveness for all or a portion of the loan and accrued interest based on the use of loan proceeds (see Note 7). Accordingly, in June 2021, the Hospital received full forgiveness of the April 2020 PPP Loan from the Small Business Administration (the SBA), as all employee retention criteria were met, and the funds were used for eligible expenses during the 8-week coverage period. Accordingly, the Hospital recorded a gain on PPP loan extinguishment of \$2,995,100 which is included in nonoperating revenue in the accompanying 2021 statement of revenue, expenses, and changes in net position.

In addition, the Hospital has received various other grants and financial assistance totaling approximately \$179,000 and \$430,000 for the years ended June 30, 2021 and 2020, respectively, to assist with COVID-19 related costs. Of these amounts, approximately \$79,000 and \$430,000 are included in noncapital grants in the accompanying statements of revenue, expenses, and changes in net position for the years ended June 30, 2021 and 2020, respectively, and \$100,000 is included in deferred government stimulus grants as of June 30, 2021. In November 2021, the Hospital was granted up to \$200,000 of financial assistance from the County (pass-through grant from the U.S. Department of the Treasury) to be used exclusively for COVID-19 vaccinations.

Budgets

The Hospital is required to prepare and adopt an annual operating budget in accordance with 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 Hospital's Board of Directors (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. For the Hospital's budget year ending June 30, 2022, the Hospital approved budget resolutions that did not agree to the notice of budget hearing filed on June 23, 2021. However, the Hospital is in the process of revising the fiscal year 2022 budget to rectify this issue.

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 3).

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

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

receivable net of contractual discounts and allowances. During the year ended June 30, 2020, net patient service revenue was decreased by approximately \$478,000 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 the 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, 2021 and 2020 were approximately as follows:

	2021	2020
Medicare	33%	36%
Medicaid and Oregon Health Plan (OHP)	17	18
Commercial insurance and other negotiated contracts	33	31
Self-pay	17	15
	100%	100%

Property taxes receivable

The Hospital received approximately 6.1% and 6.9% of its financial support from property and other county taxes - net in 2021 and 2020, respectively. Such funds were used to support the Hospital's operations and totaled \$2,122,759 and \$2,038,194, respectively.

Property taxes are levied annually under Oregon Revised Statute (ORS) 440.395 to supplement the Hospital's operations. Property taxes are assessed on all taxable property as of January 1 preceding the beginning of the fiscal year. Property taxes become a lien on January 1 for personal property and on July 1 for real property. Property taxes are levied on July 1. Collection dates are generally November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

The Hospital's property taxes receivable as of June 30, 2021 and 2020 are deemed by Management to be substantially collectible or recoverable through liens. Accordingly, no allowance for uncollectible property taxes receivable is considered necessary by Management.

Supplies inventory

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

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

Assets limited as to use

Assets limited as to use primarily consist of assets (money market accounts) from the Provider Relief Funds, the Advance Payment Program, and other financial assistance (including the proceeds from the PPP loans and grants from the CARES Act), and assets (cash deposits in the Oregon State Treasury Local Government Investment Pool (LGIP) and a certificate of deposit (the CD) as of June 30, 2021 and 2020, respectively) which are required to be maintained in a debt service reserve account by the Hospital's loan agreement with Umpqua (see Notes 3 and 7). Interest income on assets limited as to use is included in nonoperating revenue when earned.

Capital assets

The Hospital considers an asset which has an estimated useful life in excess of one year to be a capital asset. Effective in April 2021, the capitalization policy was updated whereby purchased capital assets costing more than \$5,000 (increased from \$3,000) 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. Equipment under capital lease obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense in the accompanying financial statements. 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 year ended June 30, 2021 or 2020, 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 certain thresholds, with such excess being paid to them each December. In addition, in December of each year, employees covered by collective bargaining agreements (CBAs) can request that their unused PTO in excess of 40 hours be paid to them in cash, provided that such employees have accrued at least 120 hours of PTO by the prior October 31. All unused PTO is paid to employees in cash upon their termination of employment from the Hospital, if proper notice has been given.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

Net position

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 amortization 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, 2021 and 2020, the Hospital had no *restricted nonexpendable 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, OHP, and Medicaid patients under contractual arrangements. The Hospital is a "critical access hospital" (CAH) for Medicare program purposes. As a CAH, the Hospital cannot operate more than 25 beds, and the Hospital's average length of stay for acute care patients cannot exceed 96 hours. As a CAH, the Hospital is reimbursed for Medicare inpatient and outpatient services 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. The Hospital's Medicare cost reports have been audited and final settled by the Medicare fiscal intermediary through June 30, 2016.

Services rendered to OHP beneficiaries are primarily reimbursed at discounts from standard charges or based on fee schedules. Services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Under this methodology, the Hospital is reimbursed at a tentative rate with final settlement determined after audits of the Hospital's annual cost reports by Medicaid. The Hospital's Medicaid cost reports have been audited and final settled by Medicaid through June 30, 2016.

The laws and regulations governing the Medicare, OHP, and Medicaid programs are extremely complex and subject to interpretation. In addition, the Recovery Audit Contractors program requires the evaluation of certain Medicare and Medicaid claims for propriety by third-party contractors. As a result, there is at least a reasonable possibility that estimated third-party payor settlements receivable - net will change by a material amount in the near-term. Net patient service revenue was decreased by approximately \$53,000 and \$250,000 during the years ended June 30, 2021 and 2020, respectively, as a result of revisions of estimates for prior year cost report settlements.

Gross patient service revenue for services provided by the Hospital to Medicare, OHP, and Medicaid patients aggregated approximately \$35,578,000 and \$35,490,000 for the years ended June 30, 2021 and 2020, respectively. Net patient service revenue for services provided to these same patients aggregated approximately \$17,580,000 and \$17,790,000 for the years ended June 30, 2021 and 2020, respectively.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

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, reimbursed costs, discounts from established charges, and per diem payments.

Charity care

The Hospital provides services to patients who meet the criteria of its charity care policy without charge or at amounts less than its established rates. The Hospital's criteria for the determination of charity care include the patient's – or the other responsible party's – annual household income, assets, credit history, existing debt obligations, and other indicators of the patient's ability to pay. Generally, uninsured individuals with an annual household income at, or less than, 200% of the Federal Poverty Guidelines (the Guidelines) qualify for charity care under the Hospital's policy. In addition, through December 31, 2019, the Hospital provided discounts on a sliding scale to uninsured individuals with an annual household income of between 200% and 275% of the Guidelines. Effective January 1, 2020, the Hospital provided discounts on a sliding scale to uninsured individuals with an annual household income of between 200% and 400% 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 8).

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 property and other county taxes - net, government stimulus income, gains on loan extinguishments, noncapital grants, investment income, and gains and losses on disposals of capital assets - net – is 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. During the year ended June 30, 2020, the Hospital received aggregate grants of \$4,261,805 from HHS under the CARES Act. In addition, during the years ended June 30, 2021 and 2020, the Hospital received approximately \$179,000 and \$430,000, respectively, in other grants and financial assistance to help with COVID-19 costs. 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 expense in the accompanying statements of revenue, expenses, and changes in net position. During the years ended June 30, 2021 and 2020, the Hospital received capital contributions of \$10,532 and \$53,935, respectively.

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 \$1,066,000 and \$853,000 for the years ended June 30, 2021 and 2020, respectively, which are included in supplies and other operating expenses in the accompanying statements of revenue, expenses, and changes in net position.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

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. Prepaid expenses and other current assets include approximately \$353,000 and \$179,000 of provider taxes receivable due from OAHHS as of June 30, 2021 and 2020, respectively, and other accrued liabilities include approximately \$353,000 and \$179,000 of provider taxes payable to Oregon as of June 30, 2021 and 2020, respectively, in the accompanying statements of net position. Generally, the amount of annual receipts from OAHHS matches the annual amount of taxes paid.

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, 2021, 2020, or 2019.

Federal and state income taxes

The Hospital is a municipal corporation. In addition, the Internal Revenue Service 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.

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 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. Management is currently evaluating the effect that GASB 87 will have on the Hospital's future financial statements.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

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. GASB 96 will first be effective for the Hospital's fiscal year 2023, with early adoption encouraged. Management is currently evaluating the effect that GASB 96 will have on the Hospital's future financial statements.

Reclassifications

Certain amounts for 2020 have been reclassified to conform with the 2021 presentation.

2. Operations

During 2021 and for the last number of years, the Hospital has incurred substantial operating losses (generally offset by the receipt of property taxes and government stimulus income). In addition, beginning late in fiscal year 2020, the Hospital encountered various challenges posed by the COVID-19 pandemic (see Note 1). Consequently, Management has continued to improve medical billing, coding, and collection procedures; has reviewed the Hospital's rates in fiscal years 2020 and 2021; has limited capital expenditures; and is continuing to analyze less profitable operations and other strategies to improve the Hospital's operating results. In addition, in response to the COVID-19 pandemic, the Hospital applied for – and received – two PPP loans (see Note 7) and other grants and financial assistance (see Note 1). Based on the changes implemented in fiscal years 2020 and 2021; the Hospital's plans to further improve operating results; the projected continuance of property tax receipts; the receipt of the Provider Relief Funds, the PPP loans, and other grants and financial assistance; and the existence of net current assets of \$8,458,279, and total net position of \$10,093,212 as of June 30, 2021, Management believes that cash flows will be adequate to fund the Hospital's operations through at least June 30, 2022.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

3. Deposits and Investments

Cash and cash equivalents and assets limited as to use consisted of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents		
Cash on hand	\$ 1,817	\$ 1,518
Unrestricted cash deposits (book overdrafts) in a financial institution	37,019	(127,025)
LGIP	2,671,228	174
Money market accounts	1,282,204	-
CD	-	355,119
Total cash and cash equivalents	<u>3,992,268</u>	<u>229,786</u>
Assets limited as to use		
Medicare accelerated payments – money market account	3,604,143	4,161,752
Other CARES Act funds – money market account	2,106,521	3,336,984
LGIP	333,880	-
Provider Relief Funds – money market account	-	4,261,805
CD	-	333,880
Other – cash deposits in a financial institution	11,333	11,698
Total assets limited as to use	<u>6,055,877</u>	<u>12,106,119</u>
Less portion classified as current	<u>(4,973,795)</u>	<u>(8,417,764)</u>
Total assets limited as to use - net of current portion	1,082,082	3,688,355
Total cash and cash equivalents and assets limited as to use - net of current portion	<u>\$ 5,074,350</u>	<u>\$ 3,918,141</u>

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.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

The Hospital's assets measured at fair value consist of assets invested in the LGIP, a level 2 fair value measurement. The LGIP is commingled with other public funds in the Oregon Short Term Fund (OSTF), which was established by the Office of the Oregon State Treasurer (OST). The ORS and the Oregon Investment Council establish investment policies for the OST and OSTF. In addition, the OSTF Board establishes OSTF portfolio guidelines. Members of the Oregon Investment Council and the OSTF Board are appointed by the Governor of Oregon. The OSTF is not managed as a stable net position value fund. As such, investors in the OSTF should be aware that preservation of principal is not assured by the OST or the OSTF Board. Participants' equity in the LGIP is determined by the amount of participant deposits, plus allocated income, less withdrawals. Interest income related to the LGIP is allocated on an amortized cost basis.

The method 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 method used by the Hospital is 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.

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 ORS Chapter 295 (ORS 295) to maintain any deposits 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, 2021 and 2020, all of the Hospital's deposits in financial institutions in excess of FDIC coverage were maintained at a "qualified depository."

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, CDs, 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 corporate indebtedness issued by financial institutions that is rated P-2 or A3 or better by Moody's Investors Service or A-2 or A 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.

The LGIP is not rated, and investments in the LGIP are not subject to the collateralization requirements of ORS 295.

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

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

June 30, 2021 and 2020, the Hospital had deposits in a single financial institution exposed to custodial credit risk as follows:

	2021	2020
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	7,047,433	12,541,261
Total	<u>\$ 7,297,433</u>	<u>\$ 12,791,261</u>

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 Office of 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 June 30, 2021 and 2020, the aggregate Oregon public fund collateral pledged exceeded 100% of the public fund deposits held by the Hospital's depository bank.

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. The LGIP manages its exposure to interest rate risk by limiting the maturity of the investments it holds. The portfolio rules of the LGIP require that at least 50% of the portfolio mature within 93 days; not more than 25% of the portfolio may mature in over a year; and no investments may mature over three years from the date of acquisition.

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, 2021, the Hospital's deposits and investments with the LGIP totaled \$3,005,108 (approximately 29.9% of Hospital's total deposits and investments). As of June 30, 2020, none of the Hospital's individual investments represented 5.0% or more of its total investments.

4. Patient Accounts Receivable

Patient accounts receivable consisted of the following as of June 30, 2021 and 2020:

	2021	2020
Receivable from patients and their insurance carriers	\$ 2,556,637	\$ 2,187,109
Receivable from Medicare - net	1,225,4115	1,230,447
Receivable from OHP and Medicaid - net	628,002	589,127
Total patient accounts receivable	4,410,050	4,006,683
Less allowance for doubtful accounts	(735,048)	(655,886)
Patient accounts receivable - net	<u>\$ 3,675,002</u>	<u>\$ 3,350,797</u>

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements Years Ended June 30, 2021 and 2020

5. Capital Assets

The activity in the Hospital's capital assets and related accumulated depreciation and amortization accounts for the years ended June 30, 2021 and 2020 was as follows:

	June 30, 2020	Additions/ Provisions	Sales and Retirements	Transfers	June 30, 2021
2021					
Depreciable capital assets					
Cost					
Land improvements	\$ 487,727	\$ -	\$ -	\$ -	\$ 487,727
Buildings and improvements	8,479,165	-	-	251,639	8,730,804
Leasehold improvements	1,207,881	-	-	-	1,207,881
Fixed equipment	533,772	-	-	-	533,772
Movable equipment	6,437,720	126,225	(7,595)	1,171,628	7,727,978
Total depreciable capital assets	17,146,265	\$ 126,225	\$ (7,595)	\$ 1,423,267	18,688,162
Accumulated depreciation and amortization					
Land improvements	270,242	\$ 18,910	\$ -	\$ -	289,152
Buildings and improvements	6,812,947	274,066	-	-	7,087,013
Leasehold improvements	449,152	88,737	-	-	537,889
Fixed equipment	394,616	24,856	-	-	419,472
Movable equipment	5,574,200	432,066	(7,595)	-	5,998,671
Total accumulated depreciation and amortization	13,501,157	\$ 838,635	\$ (7,595)	\$ -	14,332,197
Depreciable capital assets - net	3,645,108				4,355,965
Nondepreciable capital assets					
Land	402,197	\$ -	\$ -	\$ -	402,197
Construction in progress	807,111	944,731	-	(1,423,267)	328,575
Total nondepreciable capital assets	1,209,308	\$ 944,731	\$ -	\$ (1,423,267)	730,772
Capital assets - net	\$ 4,854,416				\$ 5,086,737
	June 30, 2019	Additions/ Provisions	Sales and Retirements	Transfers	June 30, 2020
2020					
Depreciable capital assets					
Cost					
Land improvements	\$ 492,569	\$ -	\$ (4,842)	\$ -	\$ 487,727
Buildings and improvements	8,926,894	-	(447,729)	-	8,479,165
Leasehold improvements	619,262	588,619	-	-	1,207,881
Fixed equipment	656,002	-	(122,230)	-	533,772
Movable equipment	7,476,105	225,852	(1,264,237)	-	6,437,720
Total depreciable capital assets	18,170,832	\$ 814,471	\$ (1,839,038)	\$ -	17,146,265
Accumulated depreciation and amortization					
Land improvements	248,811	\$ 25,898	\$ (4,467)	\$ -	270,242
Buildings and improvements	6,876,942	276,048	(340,043)	-	6,812,947
Leasehold improvements	397,724	51,428	-	-	449,152
Fixed equipment	486,435	30,411	(122,230)	-	394,616
Movable equipment	6,507,517	330,185	(1,263,502)	-	5,574,200
Total accumulated depreciation and amortization	14,517,429	\$ 713,970	\$ (1,730,242)	\$ -	13,501,157
Depreciable capital assets - net	3,653,403				3,645,108
Nondepreciable capital assets					
Land	458,397	\$ -	\$ (56,200)	\$ -	402,197
Construction in progress	24,219	782,892	-	-	807,111
Total nondepreciable capital assets	482,616	\$ 782,892	\$ (56,200)	\$ -	1,209,308
Capital assets - net	\$ 4,136,019				\$ 4,854,416

Included in capital assets as of June 30, 2021 and 2020 are assets financed under capital lease obligations (see Note 7) with a cost of approximately \$552,000. The accumulated amortization of these assets was approximately \$298,000 and \$205,000 as of June 30, 2021 and 2020, respectively.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

6. Note Payable

The Hospital has a \$200,000 revolving line of credit agreement (the Line of Credit) with Umpqua that expires in February 2022. Borrowings under the Line of Credit are secured by all income and revenue received by the Hospital, including all property and other county tax revenue. Interest payments on borrowings outstanding are due monthly at the prime lending rate as published in the Wall Street Journal (3.25% as of June 30, 2021), subject to a floor of 4.00%, and any outstanding borrowings under the Line of Credit are due on demand or at the expiration date of the Line of Credit. In connection with the Line of Credit, the Hospital is required to meet a certain financial ratio covenant. There were no borrowings or repayments under the Line of Credit during the years ended June 30, 2021 and 2020.

7. Long-Term Obligations and Other Noncurrent Liability

A schedule of changes in the Hospital's long-term obligations and other noncurrent liabilities for the years ended June 30, 2021 and 2020 is as follows:

	<u>June 30, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2021</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due After One Year</u>
2021						
Long-term obligations						
Note payable to Umpqua	\$ 1,811,285	\$ -	\$ (203,597)	\$ 1,607,688	\$ 215,114	\$ 1,392,574
Note payable to the County	579,290	-	(125,850)	453,440	171,205	282,235
Capital lease obligations	368,656	-	(107,961)	260,695	111,568	149,127
Total long-term obligations	2,759,231	-	(437,408)	2,321,823	497,887	1,823,936
Other noncurrent liabilities						
Medicare accelerated payments	4,130,114	-	(525,971)	3,604,143	2,867,274	736,869
PPP loans payable	2,995,100	2,006,521	(2,995,100)	2,006,521	-	2,006,521
Other - estimated medical malpractice claims liability (see Note 10)	420,000	-	-	420,000	-	420,000
Total other noncurrent liabilities	7,545,214	2,006,521	(3,521,071)	6,030,664	2,867,274	3,163,390
Total long-term obligations and other noncurrent liabilities	<u>\$ 10,304,445</u>	<u>\$ 2,006,521</u>	<u>\$ (3,958,479)</u>	<u>\$ 8,352,487</u>	<u>\$ 3,365,161</u>	<u>\$ 4,987,326</u>
	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due After One Year</u>
2020						
Long-term obligations						
Note payable to Umpqua	\$ 2,009,464	\$ -	\$ (198,179)	\$ 1,811,285	\$ 204,062	\$ 1,607,223
Note payable to the County	579,290	-	-	579,290	125,850	453,440
Capital lease obligations	465,081	144,725	(241,150)	368,656	107,962	260,694
Total long-term obligations	3,053,835	144,725	(439,329)	2,759,231	437,874	2,321,357
Other noncurrent liabilities						
Medicare accelerated payments	-	4,130,114	-	4,130,114	812,749	3,317,365
PPP loan payable	-	2,995,100	-	2,995,100	-	2,995,100
Other - estimated medical malpractice claims liability	420,000	-	-	420,000	-	420,000
Total other noncurrent liabilities	420,000	7,125,214	-	7,545,214	812,749	6,732,465
Total long-term obligations and other noncurrent liability	<u>\$ 3,473,835</u>	<u>\$ 7,269,939</u>	<u>\$ (439,329)</u>	<u>\$ 10,304,445</u>	<u>\$ 1,250,623</u>	<u>\$ 9,053,822</u>

In May 2013, the Hospital entered into a loan agreement (the Umpqua Loan Agreement) with Umpqua to borrow \$3,338,800 to refinance certain prior debt. Borrowings under the Umpqua Loan Agreement are secured by substantially all assets of the Hospital. The Hospital is required to make payments in monthly installments of \$21,319 (including interest at 3.070%) through June 2028, at which time all remaining outstanding principal and accrued interest is due.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

The Umpqua Loan Agreement 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 Umpqua Loan Agreement requires the Hospital to maintain a Debt Service Reserve Fund account of \$333,880 and to meet a financial ratio covenant. As of June 30, 2021 and 2020, Umpqua has indicated that the Debt Service Reserve Fund could be maintained within the LGIP account and CD, respectively (see Note 3).

In the event of a default by the Hospital – such as failing to make payments on the Umpqua Loan Agreement 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 Umpqua Loan Agreement and the Line of Credit may, at Umpqua's discretion, become immediately due and payable by the Hospital.

As of June 30, 2021, scheduled principal and interest repayments on the Umpqua Loan Agreement were as follows:

Fiscal Years Ending June 30,	Principal	Interest
2022	\$ 215,114	\$ 40,098
2023	220,896	34,316
2024	226,834	28,378
2025	232,931	22,281
2026	239,192	16,020
2027 - 2028	472,721	12,588
Total	<u>\$ 1,607,688</u>	<u>\$ 153,681</u>

In April 2006, the Hospital entered into a loan agreement (the County Loan Agreement) with the County to borrow up to \$850,000 to assist an unrelated third-party (the Developer) in developing certain home sites in a subdivision (the Subdivision) in Reedsport, Oregon. In connection with this development, certain roads and infrastructure were built so that an assisted living facility could potentially be constructed on some undeveloped land that was donated to the Hospital by the Developer. Borrowings under the County Loan Agreement were to accrue interest and are secured by the Subdivision, as well as the underlying land. Principal and interest amounts were due based on the net sales proceeds of home sites sold by the Developer (i.e., as sales were made, the proceeds, net of closing costs and realtor fees, were to be remitted by the Developer to the Hospital and then to the County and applied against outstanding accrued interest and borrowings under the County Loan Agreement). Any remaining unpaid amounts owed under the County Loan Agreement were originally due and payable in April 2021. In conjunction with entering into the County Loan Agreement, the Hospital entered into a development agreement with the Developer, whereby the Hospital loaned the developer \$1,050,000, the Developer agreed to remit all home site net sales proceeds to the Hospital until all outstanding borrowings under the County Loan Agreement (including interest) have been repaid, and the Developer granted the Hospital a security interest in the Subdivision. Any remaining unpaid amounts owed by the Developer to the Hospital were originally due and payable in April 2021. During the year ended June 30, 2018, the County Loan Agreement was modified (the Modification) such that if the Hospital repays the County \$612,000 by May 30, 2028, the debt to the County will be deemed to be fully repaid. If \$612,000 is not paid by the Hospital to the County by May 30, 2028, the amount owed to the County would be approximately \$1,134,000 (approximately \$845,000 originally loaned from the County to the Hospital plus accrued interest as of June 30, 2017 of approximately \$289,000) (as reduced by any subsequent payments). Also, under the Modification, interest is no longer being charged by the County under the County Loan Agreement. Similarly, the Hospital entered into a modification of its agreement with the Developer such that if the Developer pays the Hospital \$612,000 by May 30, 2028, the receivable from the Developer will be deemed to be fully repaid. Also, if the Developer does not pay the Hospital \$612,000 by May 30, 2028, this modification will be considered to be null and void, and the Developer would owe the Hospital approximately \$1,134,000 (as reduced by any subsequent payments).

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

During the year ended June 30, 2019, one of the home sites was sold, and, accordingly, the Developer remitted approximately \$33,000 to the Hospital which the Hospital in turn remitted to the County, reducing both the receivable from the Developer and payable to the County to approximately \$579,000 as of June 30, 2019. During the year ended June 30, 2020, four additional home sites were sold, and, accordingly, the Developer remitted approximately \$126,000 to the Hospital, reducing the receivable from the Developer to approximately \$453,000 as of June 30, 2020. The Hospital did not remit the \$126,000 to the County until August 2020; accordingly, the payable to the County as of June 30, 2020 remained at approximately \$579,000. During the year ended June 30, 2021, no home sites were sold. Accordingly, the receivable from the Developer and the payable to the County was \$453,000 as of June 30, 2021. However, subsequent to June 30, 2021, four additional home sites were sold for approximately \$131,000, and such amount was received from the Developer and paid to the County. In addition, the Developer paid the Hospital approximately \$41,000 which represented the proceeds of certain tax refunds, and the Hospital remitted such amount to the County. Given that Management believes that it is remote that the approximate \$453,000 will not be paid by the Developer to the Hospital by May 30, 2028 (of which, approximately \$172,000 was received since June 30, 2021), and that it is remote that the Hospital will not pay the County the approximate \$453,000 by May 30, 2028 (of which, approximately \$172,000 was paid since June 30, 2021), the receivable from the Developer and the note payable to the County are recorded as approximately \$453,000 as of June 30, 2021. Amounts due from the Developer are included in other assets in the accompanying statements of net position. Amounts due to the County are included in long-term obligations in the accompanying statements of net position. In the event of a default by the Hospital, all amounts due under the Modification may, at the County's discretion, become immediately due and payable by the Hospital.

The Hospital's PPP loans (see Note 1), including accrued interest, may be forgiven if all employee retention criteria are met and the funds are used for eligible expenses during the 8-week coverage period. In June 2021, the Hospital obtained forgiveness of the April 2020 PPP Loan (see Note 1). Payment of principal and interest on the March 2021 PPP Loan is deferred until the date that the SBA remits the Hospital's forgiveness amount to Umpqua. The entire March 2021 PPP Loan is classified as long-term in the accompanying statement of net position as of June 30, 2021, based on the expectation that no payments will be made within the next 12 months. In addition, the PPP loan is not included in the five-year debt maturity schedule above given that – under the provisions of the CARES Act and the CAA – the Hospital obtained full forgiveness of the March 2021 PPP Loan in August 2021.

In October 2017, the Hospital entered into a capital lease agreement with U.S. Bancorp Government Leasing and Finance, Inc. (U.S. Bancorp) for the acquisition of an ambulance with a cost of approximately \$202,000. This capital lease is due in quarterly installments of \$10,902, including interest at 2.89%, through October 2022 and is collateralized by the ambulance. In the event of default by the Hospital, all amounts due may, at the lessor's discretion, become immediately due and payable by the Hospital. In addition, the lessor may terminate the lease and take possession of the leased property. As of June 30, 2021 and 2020, the capital lease obligation outstanding owed to U.S. Bancorp was \$63,790 and \$104,811, respectively.

In October 2018, the Hospital entered into a capital lease agreement with First Business Equipment Finance, LLC (First Business) for the acquisition of certain medical laboratory equipment. This capital lease is due in monthly installments of \$3,696 through September 2023. In the event of default by the Hospital, all amounts due may, at the lessor's discretion, become immediately due and payable by the Hospital. In addition, the lessor may terminate the lease and take possession of the leased property. As of June 30, 2021 and 2020, the capital lease obligation outstanding owed to First Business was \$94,329 and \$133,052, respectively.

In November 2019, the Hospital entered into a capital lease agreement with GE Healthcare (GE) for the acquisition of certain medical imaging equipment. This capital lease is due in monthly installments of \$2,516 through December 2024. In the event of default by the Hospital, all amounts due may, at the lessor's discretion, become immediately due and payable by the Hospital. In addition, the lessor may

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

terminate the lease and take possession of the leased property. As of June 30, 2021 and 2020, the capital lease obligation outstanding owed to GE was \$102,576 and \$130,793, respectively.

As of June 30, 2021, future minimum lease payments under capital lease obligations were approximately as follows:

Fiscal Years Ending June 30,	Amount
2022	\$ 118,154
2023	96,349
2024	41,285
2025	15,100
Total minimum lease payments	270,888
Less amounts representing interest	(10,193)
Present value of minimum lease payments	<u>\$ 260,695</u>

8. Net Patient Service Revenue

Net patient service revenue for the years ended June 30, 2021 and 2020 was comprised of the following:

	2021	2020
Charges at established rates	\$ 46,894,759	\$ 47,175,840
Deductions		
Medicare, OHP, and Medicaid contractual allowances	17,993,579	17,701,514
Other contractual allowances	3,374,247	3,977,214
Provision for bad debts	724,751	1,369,297
Charity allowances	149,740	236,888
Total deductions	<u>22,242,317</u>	<u>23,284,913</u>
Net patient service revenue	<u>\$ 24,652,442</u>	<u>\$ 23,890,927</u>

Management estimates that the net cost of charity care provided was approximately \$99,000 and \$141,000 for the years ended June 30, 2021 and 2020, respectively. This estimate was based on the Hospital's overall ratio of costs to charges for the fiscal year. For the year ended June 30, 2021, approximately 5.2%, 0.9%, and 1.3% of all inpatient admissions, outpatient visits, and emergency room visits, respectively, were classified as charity care; and for the year ended June 30, 2020, approximately 15.8%, 4.3%, and 3.5% of all inpatient admissions, outpatient visits, and emergency room visits, respectively, were classified as charity care.

9. Defined Contribution Retirement Plans

The Hospital has a defined contribution retirement plan (Lower Umpqua Hospital District Employees' Savings Plan) (the Plan), which covers substantially all of the Hospital's employees who have reached age 21 and have completed one year of employment with at least 1,000 hours of service. In July 2017, the Hospital adopted a new defined contribution retirement plan (Lower Umpqua Hospital District 403(b) Savings Plan) (the New Plan) with the same eligibility requirements of the Plan, and over time, the account balances of the Plan are being transferred to the New Plan, and eventually the Plan will be terminated. The Plan and the New Plan are collectively referred to as "the Plans."

Employees may contribute a percentage of their compensation up to certain limits specified by the Code. The Hospital's contributions are discretionary. During the years ended June 30, 2021 and 2020, the Hospital contributed 5% of eligible employees' compensation to the Plans. Participants are immediately vested in their own contributions. Participants are not vested in any of the Hospital's contributions until they have attained three years of service, at which time they become 100% vested. The Plans are administered by the

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

Hospital and can be amended or terminated by the Hospital at any time (subject to the Hospital's union contracts).

Aggregate participant contributions to the Plans during the years ended June 30, 2021 and 2020 were approximately \$549,000 and \$580,000, respectively. The Hospital's contributions to the Plans for the years ended June 30, 2021 and 2020 were approximately \$480,000 and \$482,000, respectively.

10. Commitments and Contingencies

Medical malpractice insurance

The Hospital has a claims-made basis medical malpractice insurance policy. Under this policy, medical malpractice claims reported by the Hospital to the insurance company during the policy period are covered; however, any medical malpractice claim that has been incurred but not reported (IBNR) to the insurance company during the policy period is not covered. The Hospital recorded an estimated liability for IBNR medical malpractice claims of \$420,000 as of June 30, 2021 and 2020. Management believes that the estimated medical malpractice claims liability is adequate; however, the establishment of estimated liabilities for 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.

Operating leases

The Hospital leases certain equipment under operating lease agreements which expire at various dates through fiscal year 2026. Total rental expense in fiscal years 2021 and 2020 for all operating leases was approximately \$394,000 and \$389,000, respectively. For the fiscal years 2021 and 2020, rental expense includes approximately \$208,000 and \$271,000, respectively, related to payments based on a percentage of gross billings for certain ultrasound charges and radiology professional fees (the Imaging Lease).

As of June 30, 2021, future minimum lease payments under noncancelable operating lease agreements that have initial or remaining lease terms in excess of one year were approximately as follows:

Fiscal Years Ending June 30,	Amount
2022	\$ 68,000
2023	47,000
2024	30,000
2025	13,000
2026	6,000
Total minimum lease payments	<u>\$ 164,000</u>

The lease commitments above do not include any amounts related to the Imaging Lease, as any such commitments are not reasonably estimable.

Significant contract

The Hospital has an agreement with EmCare, Inc. d/b/a Envision Physician Services (the Envision Agreement), under which Envision provides emergency physician coverage in the Hospital's emergency department 24 hours a day, seven days a week. The Envision Agreement automatically renews annually each April 1 unless cancelled by either party. The Hospital has agreed to pay a monthly administrative fee for this service, based on the monthly patient volume in the emergency department. Under terms of the Envision Agreement, the fee chart is subject to annual negotiation and adjustment in an amount necessary to maintain compensation to Envision at "fair market value." During the years ended June 30, 2021 and

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

2020, the Hospital incurred expense of approximately \$1,367,000 and \$1,337,000, respectively, under the Envision Agreement.

Commitments

In September 2018, the Hospital entered into a non-cancellable agreement to purchase certain medical supplies from a vendor (the Supplies Agreement). The Supplies Agreement requires monthly payments of approximately \$8,600 through fiscal year 2024.

In November 2019, the Hospital agreed to enter into a Health Care Information System Software Subscription Agreement (the Subscription Agreement) to support the services associated with certain software offerings. The Services Agreement requires monthly subscription payments of \$47,000 through June 2022.

The remaining commitments under these agreements for years subsequent to June 30, 2021 are approximately as follows:

Fiscal Years Ending June 30,	The Supplies Agreement	The Subscription Agreement	Total
2022	\$ 103,000	\$ 564,000	\$ 667,000
2023	103,000	-	103,000
2024	26,000	-	26,000
Total purchase commitments	<u>\$ 232,000</u>	<u>\$ 564,000</u>	<u>\$ 796,000</u>

Collective bargaining agreement (CBA)

As of June 30, 2021, approximately 57% and 13% of the Hospital's employees are covered under CBAs with the United Food and Commercial Workers union (the UFCW) and the Teamsters Local 206 union (the Teamsters), respectively. The CBA with the UFCW expires on November 30, 2023, and the CBA with the Teamsters expires on May 31, 2022.

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.

**Lower Umpqua Hospital District
dba Lower Umpqua Hospital**
**Schedule of Revenue, Expenditures, and
Changes in Net Position - Budget and Actual
(Non-GAAP Budgetary Basis)**
Year Ended June 30, 2021

	Original/ Final Budget	Actual	Variance
Operating Revenue			
Net patient service revenue	\$ 26,542,813	\$ 24,652,442	\$ (1,890,371)
Other revenue	3,072,500	1,973,237	(1,099,263)
Total operating revenue	29,615,313	26,625,679	(2,989,634)
Expenditures			
Personal services	18,689,865	17,352,467	(1,337,398)
Materials and services	11,682,851	13,908,032	2,225,181
Capital outlay	2,000,000	1,070,956	(929,044)
Debt service	245,083	585,270	340,187
Total expenditures	32,617,799	32,916,725	298,926
Operating Loss	(3,002,486)	(6,291,046)	(3,288,560)
Nonoperating revenue (expense)			
Property and other county taxes - net	1,995,000	2,122,759	127,759
Government stimulus income	-	3,198,319	3,198,319
Gain on PPP loan extinguishment	-	2,995,100	2,995,100
Noncapital grants	-	79,028	79,028
Investment income	-	22,527	22,527
Other - net	(38,000)	2,833	40,833
Total nonoperating revenue - net	1,957,000	8,420,566	6,463,566
Income (Loss) Before Capital Contributions	(1,045,486)	2,129,520	3,175,006
Capital contributions	-	10,532	10,532
Excess (deficit) of revenue over expenditures	(1,045,486)	2,140,052	3,185,538
Other	131,271	669,729	538,458
Increase (Decrease) in Net Position	(914,215)	2,809,781	3,723,996
Net Position - June 30, 2020	7,283,431	7,283,431	-
Net Position - June 30, 2021	\$ 6,369,216	\$ 10,093,212	\$ 3,723,996

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



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

Independent Auditors' Report Required by Oregon State Regulations

To the Board of Directors of
Lower Umpqua Hospital District,
dba Lower Umpqua Hospital

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Lower Umpqua Hospital District, dba Lower Umpqua Hospital (the Hospital), as of and for the year ended June 30, 2021, 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 29, 2021.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's financial statements as of and for the year ended June 30, 2021, 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 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.

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, 2021.
- 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 materials and services and debt service exceeded the amounts budgeted for the year ended June 30, 2021.
- The Hospital's approved budget resolutions for fiscal year 2022 did not agree to the notice of budget hearing filed on June 23, 2021.



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) as a basis for determining 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 a certain deficiency in internal control that we consider to be a significant deficiency. We also identified certain other matters that were reported to the Hospital's Board of Directors (the Board) and Management in a separate letter dated November 29, 2021.

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 29, 2021



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

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

To the Board of Directors of
Lower Umpqua Hospital District,
dba Lower Umpqua 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 Lower Umpqua Hospital District, dba Lower Umpqua Hospital (the Hospital), as of and for the year ended June 30, 2021, 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 29, 2021.

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) as a basis for determining 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. We did identify a certain deficiency in internal control that we consider to be a significant deficiency. We also identified certain other matters that were reported to the Hospital's Board of Directors (the Board) and Management in a separate letter dated November 29, 2021.

Significant deficiency

The Hospital calculates the allowance for doubtful accounts and contractual write-offs (the allowances) using an Excel spreadsheet (the Spreadsheet). During our testing of the allowances as of June 30, 2021, we noted that the Hospital had not updated the allowance percentages in the Spreadsheet since June 30, 2020 to reflect 2021 collection experience. We understand that the Hospital implemented a new electronic health records and billing system effective July 1, 2020. Such implementation has made it difficult to determine actual collection rates as the Hospital's staff is trained on, and adjusts to, the new system. Given that the annual audit is not conducted until well after the Hospital's year-end, it allows us to analyze actual collection experience related to the Hospital's patient accounts receivable as of year-end. Accordingly, based on (1) an analysis of subsequent write-offs of patient accounts receivable which were outstanding as of June 30, 2021 and (2) an estimated allowance on the remaining uncollected patient accounts receivable, an audit adjustment was recorded to increase the allowances by approximately \$626,000. As the Hospital has now had more time to adapt to the new system, we recommend that the allowance percentages be periodically updated to reflect recent collection experience.



The Hospital's response to significant deficiency

We concur with the comment above and will be implementing additional detailed review and testing of recent collection experience and subsequent write-off activity of patient accounts receivable to help ensure that the allowances in the future are fairly stated in all material respects.

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Hospital's Response to Finding

The Hospital's response to finding identified in our audit is described previously. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 29, 2021