



LOWER UMPQUA
HOSPITAL DISTRICT

Annual Report

**Year Ended
June 30, 2022**

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Organization

June 30, 2022

Members of the Board of Directors as of July 1, 2022 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, 2022:

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

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Independent Auditors' Report

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

Opinion

We have audited the accompanying financial statements of the business-type activities of Lower Umpqua Hospital District, dba Lower Umpqua Hospital (the Hospital), as of and for the year ended June 30, 2022, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Hospital as of June 30, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (U.S.) (GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the U.S. (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Changes in Accounting Principles

As discussed in Note 1 to the accompanying financial statements, effective July 1, 2021, the Hospital adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matters

Required Supplementary Information

GAAP requires that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the GASB, 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 GAAS, 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 audit 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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on page 32 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 GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Delap LLP
Certified Public Accountants

Steven A. Evans, CPA
Partner

October 24, 2022

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Management's Discussion and Analysis

Year Ended June 30, 2022

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 year ended June 30, 2022. Please read it in conjunction with the Hospital's financial statements, which begin on page 11.

Due to the significant impact of the COVID-19 pandemic and related relief from the federal government on the financial results of the Hospital in fiscal year 2022, 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. 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. Most services were restored by the beginning of fiscal year 2021, and volumes were approaching pre-pandemic levels by the end of fiscal year 2022.

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 2021 and 2020, the U.S. Congress passed the *American Rescue Plan Act* and the *Coronavirus Aid, Relief and Economic Security Act*, respectively (collectively, "the Acts"), which, among other things, provided certain relief to health care providers. During fiscal years 2022 and 2020, the Hospital received aggregate grants of approximately \$1.7 million and \$4.3 million, respectively, from HHS under the Acts. 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 \$4.3 million of such grant funds as revenue during the years ended June 30, 2021 and 2020. During the year ended June 30, 2022, based on management's analysis, the Hospital met the requirements to recognize approximately \$1.7 million of Provider Relief Funds as revenue, which was recorded as government stimulus income (non-operating revenue) in the 2022 statement of revenue, expenses, and changes in net position. The current guidance governing the reporting of COVID-19 related expenditures and/or lost revenues that are attributable to the COVID-19 pandemic is vague and subject to interpretation. In addition, the guidance has been modified several times since the Provider Relief Funds have been distributed.

In addition, the CARES Act 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 could 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

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Management's Discussion and Analysis

Year Ended June 30, 2022

ended June 30, 2020, the Hospital received approximately \$4.1 million of such expanded payments under the Advance Payment Program. As of June 30, 2022, the Hospital had returned approximately \$2.8 million of such payments to Medicare through withholding from subsequent Medicare payments to the Hospital. As of June 30, 2021, the Hospital had returned approximately \$526,000 of such payments to Medicare. All such amounts received under the Advance Payment Program and not yet returned to Medicare are recorded as a Medicare accelerated payments liability in the statement of net position.

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. The Hospital met the requirements of the program to have this loan forgiven by the SBA in August 2021 and recorded the forgiven loan balance and accrued interest as a gain on PPP loan extinguishment in fiscal year 2022. In addition to the PPP funds, the Hospital has received various other grants and financial assistance totaling approximately \$659,000 and \$79,000 during the years ended June 30, 2022 and 2021, respectively, to assist with COVID-19 related costs (both capital and noncapital). Furthermore, the Hospital received an additional approximate \$141,000 during the year ended June 30, 2022 that is recorded as a deferred grant revenue in the 2022 statement of net position. In addition, the Hospital received \$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. During the year ended June 30, 2022, \$100,000 of such grant funds were recognized as revenue in the 2022 statement of revenue, expenses, and changes in net position.

Financial highlights

- The Hospital's net position of approximately \$11.8 million as of June 30, 2022 increased by approximately \$1.7 million (or 17.1%) during fiscal year 2022 and increased by approximately \$2.8 million (or 38.6%) during fiscal year 2021.
- In fiscal year 2022, actual net patient service revenue was greater than budgeted net patient service revenue by approximately \$2.7 million, and net patient service revenue increased from fiscal year 2021 by approximately \$4.1 million. 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.
- The Hospital reported operating losses of approximately \$4.7 million and \$5.5 million in fiscal years 2022 and 2021, respectively. The operating loss in fiscal 2022 was attributable to the COVID-19 pandemic – primarily due to the pandemic's impact on labor and other operating costs. The operating loss in fiscal year 2021 was primarily attributable to the impact of the COVID-19 pandemic, as discussed above.
- The Hospital's total nonoperating revenue - net was approximately \$6.2 million and \$8.3 million in fiscal years 2022 and 2021, respectively. The decrease in fiscal year 2022 was primarily the result of the recognition of approximately \$1.7 million versus \$3.2 million of the Provider Relief Funds in 2022 and 2021, respectively, and the approximate \$2.0 million versus \$3.0 million of PPP loans that were forgiven in 2022 and 2021, respectively.

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.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Management's Discussion and Analysis

Year Ended June 30, 2022

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 statement of net position on page 11. The Hospital's net position increased by approximately \$1.7 million (17.1%) in fiscal year 2022, as you can see from Tables 1 and 2 below.

Table 1: Assets, liabilities, and net position

	June 30,	
	2022	2021
Assets		
Current assets	\$ 13,013,249	\$ 14,731,940
Assets limited as to use - net of current portion	391,634	1,082,082
Total capital assets - net	6,131,577	5,086,737
Other noncurrent assets - net	228,925	453,440
Total assets	<u>19,765,385</u>	<u>21,354,199</u>
Liabilities		
Long-term obligations - net of current portion	1,911,604	1,823,936
Other current and noncurrent liabilities	6,031,823	9,437,051
Total liabilities	<u>7,943,427</u>	<u>11,260,987</u>
Net position		
Net investment in capital assets	3,736,328	3,218,354
Restricted for debt service	333,880	333,880
Unrestricted	7,751,750	6,540,978
Total net position	<u>\$ 11,821,958</u>	<u>\$ 10,093,212</u>

Total assets decreased approximately \$1.6 million from June 30, 2021 to June 30, 2022, primarily due to decreases in assets limited as to use of approximately \$4.2 million offset by increases in cash and cash equivalents of \$1.2 million, total capital assets of approximately \$1.1 million, and net patient accounts receivable of \$996,000. Assets limited as to use decreased primarily as a result of the recognition as revenue of the aforementioned Provider Relief Funds (necessitating a reclassification to unrestricted cash and cash equivalents) and the repayment of a significant amount of the Advanced Payment Program funds to Medicare. Cash and cash

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Management's Discussion and Analysis

Year Ended June 30, 2022

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 increased volumes which resulted in increased charges along with better expected collection rates due to improved staff training.

The Hospital's total long-term obligations (including current and non-current portions) increased approximately \$302,000 from June 30, 2021 to June 30, 2022 due to the addition of lease and subscription-based information technology arrangement liabilities and a loan for a new cat scan, offset by the ordinary 2022 scheduled principal payments on long-term obligations. Other current and noncurrent liabilities decreased by approximately \$3.4 million primarily due to the forgiveness of the \$2.0 million PPP loan and reduction of \$2.3 million of the amount due to Medicare for the Medicare Advanced Payments, as discussed above, offset by an increase in accounts payable of approximately \$516,000.

The Hospital's net position increased by approximately \$1.7 million from June 30, 2021 to June 30, 2022, as a result of total nonoperating revenue - net of approximately \$6.2 million and capital contributions of approximately \$262,000, offset by an operating loss of approximately \$4.7 million in fiscal year 2022.

Operating results and changes in the Hospital's net position

In fiscal year 2022, the Hospital's net position increased by approximately \$1.7 million (or 17.1%), as shown in Table 2 below. This increase is comprised of various components, and it represents a decline from the Hospital's increase in net position in fiscal year 2021 of approximately \$2.8 million.

Table 2: Operating results and changes in net position

	Years Ended June 30,	
	2022	2021
Operating revenue		
Net patient service revenue	\$ 28,789,926	\$ 24,652,442
Other revenue	2,015,636	1,973,237
Total operating revenue	<u>30,805,562</u>	<u>26,625,679</u>
Operating expenses		
Salaries and benefits	19,792,330	17,352,467
Supplies and other	6,970,268	6,744,391
Professional fees and purchased services	7,475,332	7,163,641
Depreciation and amortization	1,297,904	838,635
Total operating expenses	<u>35,535,834</u>	<u>32,099,134</u>
Operating loss	<u>(4,730,272)</u>	<u>(5,473,455)</u>
Nonoperating revenue (expenses)		
Property and other county taxes - net	2,116,833	2,122,759
Government stimulus income	1,738,375	3,198,319
Gain on PPP loan extinguishment	2,009,644	2,995,100
Noncapital grants	497,322	79,028
Investment income	29,113	22,527
Interest expense	(152,214)	(147,862)
Other - net	(41,593)	2,833
Total nonoperating revenue - net	<u>6,197,480</u>	<u>8,272,704</u>
Income before capital contributions	1,467,208	2,799,249
Capital contributions	261,538	10,532
Increase in net position	1,728,746	2,809,781
Net position - beginning of year	10,093,212	7,283,431
Net position - end of year	<u>\$ 11,821,958</u>	<u>\$ 10,093,212</u>

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Management's Discussion and Analysis

Year Ended June 30, 2022

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 \$4.7 million in fiscal year 2022, compared to an operating loss of approximately \$5.5 million in fiscal year 2021.

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 \$4.7 million in fiscal year 2022 compared to the Hospital's budgeted operating loss of approximately 2.1 million for the fiscal year, and it represents a decrease in operating loss of approximately \$700,000 from the operating loss of approximately \$5.5 million in fiscal year 2021.

Salaries and benefits increased by approximately \$2.4 million (14.1%) over the prior year. A significant portion of this increase was due to increases in labor costs required to remain competitive through the broad labor shortages. In addition, a portion of the increase was a result of filling various hard to recruit positions with high salaried staff and decreasing contracted labor costs. The Hospital currently has two unions with whom it must negotiate. As of June 30, 2022, the United Food and Commercial Workers union (UFCW) covered approximately 53% of the Hospital's employees, and the Teamsters Local 206 union (Teamsters) covered approximately 15%. The Hospital's agreement with the UFCW expires on November 30, 2023, and its agreement with the Teamsters expires on May 31, 2024.

Supply costs increased approximately \$463,000 (14.9%) as a result of very high inflation and increased volumes. The Hospital utilizes a group purchasing organization to help ensure that the best contract pricing may be achieved. Other operating expenses, consisting of items such as rentals, minor equipment, repairs, recruiting fees, insurance, and provider taxes decreased approximately \$237,000 (6.5%). Most of this decrease (approximately \$175,000) was due to a decrease in training associated with the electronic health records/billing computer system implemented in the prior year.

The Hospital oftentimes provides care to 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 \$207,000 and \$150,000 in fiscal years 2022 and 2021, 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 \$1.2 million and \$725,000 in fiscal years 2022 and 2021, 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 \$19.6 million and \$18.0 million in fiscal years 2022 and 2021, 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 2022 and 2021, nonoperating revenue included approximately \$1.7 million and \$3.2 million, respectively, of Provider Relief Funds recognized as government stimulus income and approximate \$2.0 million and \$3.0 million, respectively, of gains on PPP loan extinguishment.

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Management's Discussion and Analysis

Year Ended June 30, 2022

Contributions and grants

The Hospital generally receives very little in the form of cash contributions and other donations and grants. In fiscal years 2022 and 2021, there were approximately \$262,000 and \$11,000, respectively, in capital contributions. In addition, in fiscal years 2022 and 2021, the Hospital received noncapital grants of approximately \$497,000 and \$79,000, respectively, of which most 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 \$19.7 million and \$17.2 million in fiscal years 2022 and 2021, respectively; and payments to suppliers and contractors, which totaled approximately \$14.0 million and \$13.5 million in fiscal years 2022 and 2021, respectively.

Capital assets

As of June 30, 2022, the Hospital had approximately \$6.1 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In fiscal years 2022 and 2021, the Hospital acquired new equipment and made capital improvements costing approximately \$900,000 and \$1.1 million, respectively. In fiscal year 2022, the Hospital incurred capital expenditures for some major radiological equipment, an ambulance, patient monitors, lab equipment, and an anesthesia machine. In addition, the Hospital capitalized various subscription and lease contracts of approximately \$1.3 million under new accounting standards. In fiscal year 2021, the Hospital incurred capital expenditures for a new ambulance and a new roof, as well as several other large capital items.

Long-term obligations

As of June 30, 2022, the Hospital had approximately \$2.6 million in long-term obligations outstanding (including the current portion). This compares to approximately \$2.3 million in long-term obligations outstanding as of June 30, 2021. Long-term obligations outstanding as of June 30, 2022 consist of a note payable owed to Umpqua; a note payable owed to the County; and various lease agreements and subscription-based information technology arrangements that are now required to be recorded as both capital assets and long-term obligations in accordance with new accounting standards. 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.

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 (RPL) to develop both housing and an ALF. RPL, the owner of over 50 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

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Management's Discussion and Analysis

Year Ended June 30, 2022

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 an economic downturn, changes in third-party health care payment rates, increases in building costs, and the changing demographics of the service area, it was 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 RPL 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. During fiscal year 2022, five additional home sites were sold, and, accordingly, RPL remitted approximately \$183,000 to the Hospital which the Hospital in turn remitted to the County, reducing the receivable from RPL and payable to the County to approximately \$270,000. In addition, during fiscal year 2022, RPL paid the Hospital approximately \$41,000 which represented the proceeds of certain tax refunds, and the Hospital remitted such amount to the County which further reduced the receivable from RPL and payable the County to approximately \$229,000 as of June 30, 2022. In addition, during the year ended June 30, 2022, RPL sold seven of the lots to another developer (the New Developer) for \$230,000. As these lots are sold by the New Developer, one-seventh of this purchase price (approximately \$33,000) will be remitted from the New Developer to the Hospital, and the Hospital will remit such amounts to the County. Management believes that it is remote that the approximate \$229,000 will not be paid by RPL to the Hospital by May 30, 2028, and that it is remote that the Hospital will not pay the County the approximate \$229,000 by May 30, 2028. Accordingly, the receivable from RPL and the note payable to the County are recorded as approximately \$229,000 as of June 30, 2022.

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. The local economy has been impacted by high rates of unemployment for many years. 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

Lower Umpqua Hospital District dba Lower Umpqua Hospital Management's Discussion and Analysis Year Ended June 30, 2022

communities, significant labor shortages, rising wage rates and very expensive contract labor, 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

Statement of Net Position

As of June 30, 2022

Assets

Current assets

Cash and cash equivalents	\$ 5,208,204
Patient accounts receivable - net of allowance for doubtful accounts of \$1,010,722	4,671,239
Property taxes receivable	230,716
Supplies inventory	766,780
Current portion of assets limited as to use	1,416,750
Prepaid expenses and other current assets	719,560

Total current assets

13,013,249

Assets limited as to use - net of current portion

391,634

Capital assets

Depreciable capital assets - net	5,614,068
Nondepreciable capital assets	517,509

Total capital assets - net

6,131,577

Other noncurrent assets

228,925

Total Assets

\$ 19,765,385

Liabilities and Net Position

Current liabilities

Accounts payable	\$ 1,560,804
Accrued liabilities	
Payroll, payroll taxes, and withholdings	623,749
Paid time off	872,035
Other	181,512
Estimated third-party payor settlements payable - net	244,403
Current portion of long-term obligations	712,570
Deferred grant revenue	141,162
Medicare accelerated payments	1,275,588

Total current liabilities

5,611,823

Noncurrent liabilities

Long-term obligations - net of current portion	1,911,604
Estimated medical malpractice claims liability	420,000

Total noncurrent liabilities

2,331,604

Total liabilities

7,943,427

Net position

Net investment in capital assets	3,736,328
Restricted for debt service	333,880
Unrestricted	7,751,750

Total net position

11,821,958

Total Liabilities and Net Position

\$ 19,765,385

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

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2022

Operating Revenue

Net patient service revenue - net of provision for bad debts of \$1,180,970	\$ 28,789,926
Other revenue	2,015,636
Total operating revenue	<u>30,805,562</u>
Operating expenses	
Salaries and benefits	19,792,330
Supplies and other	6,970,268
Professional fees and purchased services	7,475,332
Depreciation and amortization	1,297,904
Total operating expenses	<u>35,535,834</u>
Operating Loss	<u>(4,730,272)</u>

Nonoperating revenue (expenses)

Property and other county taxes - net	2,116,833
Government stimulus income	1,738,375
Gain on payroll protection program loan extinguishment	2,009,644
Noncapital grants	497,322
Investment income	29,113
Interest expense	(152,214)
Other - net	(41,593)
Total nonoperating revenue - net	<u>6,197,480</u>
Income Before Capital Contributions	1,467,208
Capital contributions	261,538
Increase in Net Position	1,728,746
Net position - beginning of year	10,093,212
Net Position - End of Year	<u>\$ 11,821,958</u>

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

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Statement of Cash Flows

Year Ended June 30, 2022

Cash Flows From Operating Activities

Receipts from and on behalf of patients	\$ 28,236,626
Payments to suppliers and contractors	(13,963,106)
Payments to employees	(19,725,917)
Other receipts and payments - net	<u>(281,753)</u>
Net cash used by operating activities	<u>(5,734,150)</u>

Cash Flows From Noncapital Financing Activities

Receipt of government stimulus grants	1,738,375
Property and other county taxes - net	2,113,536
Noncapital grants	<u>538,484</u>
Net cash provided by noncapital financing activities	<u>4,390,395</u>

Cash Flows From Capital and Related Financing Activities

Purchases of capital assets - net	(853,886)
Principal paid on long-term obligations	(1,155,275)
Interest paid on long-term obligations	(152,214)
Capital contributions	261,538
Other - net	<u>(41,593)</u>
Net cash used by capital and related financing activities	<u>(1,941,430)</u>

Cash Flows From Investing Activities

Decrease in assets limited as to use - net	4,247,493
Decrease in other noncurrent assets	224,515
Investment income	<u>29,113</u>
Net cash provided by investing activities	<u>4,501,121</u>

Net Increase in Cash and Cash Equivalents

	1,215,936
Cash and cash equivalents - beginning of year	<u>3,992,268</u>
Cash and Cash Equivalents - End of Year	<u>\$ 5,208,204</u>

Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Statement of Cash Flows (Continued)
Year Ended June 30, 2022

**Reconciliation of Operating Loss to Net Cash
Used by Operating Activities**

Operating loss	\$ (4,730,272)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation and amortization	1,297,904
Provision for bad debts	1,180,970
Changes in certain operating assets and liabilities	
Patient accounts receivable	(2,177,207)
Estimated third-party payor settlements receivable - net	198,534
Supplies inventory	61,202
Prepaid expenses and other current assets	86,148
Accounts payable	516,157
Accrued liabilities	(83,434)
Estimated third-party payor settlements payable - net	244,403
Medicare accelerated payments	(2,328,555)
Net cash used by operating activities	<u>\$ (5,734,150)</u>

**Supplemental Disclosure of Non-Cash Investing
and Financing Activities**

Lease assets and liabilities recognized	<u>\$ 619,676</u>
Subscription-based information technology arrangement assets and liabilities recognized	<u>\$ 60,113</u>

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

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Year Ended June 30, 2022

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, and expenses are recognized on the accrual basis using the economic resources measurement focus. Substantially all revenue, income, gains, and expenses 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, and expenses during the reporting period. Actual results could differ from those estimates.

COVID-19 pandemic and government assistance

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.

In March 2021 and 2020, the U.S. Congress passed the *American Rescue Plan Act* and the *Coronavirus Aid, Relief and Economic Security Act*, respectively (collectively, "the Acts"), which, among other things, provided certain relief to health care providers. During the fiscal years ended June 30, 2022 and 2020, the Hospital received aggregate grants of \$1,738,375 and \$4,261,805, respectively, from HHS under the Acts. Payments received from these grants (i.e., "Provider Relief Funds") are not required to be repaid provided

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Year Ended June 30, 2022

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 \$1,738,375 of such grant funds as revenue during the year ended June 30, 2022 which is included in government stimulus income in the accompanying statement of revenue, expenses, and changes in net position. 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 Acts 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 could 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, 2022, the Hospital had returned \$2,854,526 of such payments to Medicare through withholding from subsequent Medicare payments to the Hospital. The remaining amounts received under the Advance Payment Program of \$1,275,588 are recorded in current liabilities as Medicare accelerated payments in the accompanying statement of net position.

Also, under the Acts (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, the Hospital obtained a PPP loan in the amount of \$2,000,000 (from Umpqua Bank (Umpqua) (see Note 7). The Hospital elected to adopt the debt model to account for its PPP loan in accordance with GASB accounting standards. Under the terms of the Acts 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. In August 2021, the Hospital received full forgiveness of the PPP loan and accrued interest from the Small Business Administration (SBA), as all employee retention criteria were met and the funds were used for eligible expenses during the 24-week coverage period. Accordingly, the Hospital recorded a gain on PPP loan extinguishment of \$2,009,644 which is included in nonoperating revenue in the accompanying statement of revenue, expenses, and changes in net position.

In addition, the Hospital has received various other grants and financial assistance totaling approximately \$538,000 during the year ended June 30, 2022 to assist with COVID-19 related costs and, based on Management's analysis, determined that the Hospital met the requirements to recognize \$100,000 of such grants deferred as of June 30, 2021. Of this amount, approximately \$497,000 is included in noncapital grants in the accompanying statement of revenue, expenses, and changes in net position for the year ended June 30, 2022, and approximately \$141,000 is included in deferred grant revenue as of June 30, 2022.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Year Ended June 30, 2022

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 did not agree to the notice of budget hearing filed on June 23, 2021. However, the Hospital revised the fiscal year 2022 budget to rectify this issue. The fiscal year 2022 annual appropriations by object classification were also reclassified between the various classifications subsequent to the Board approval of the budget resolution.

Cash and cash equivalents

For the purposes of the statement of cash flows, the Hospital considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents, 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 receivable net of contractual discounts and allowances. During the year ended June 30, 2022, net patient service revenue was increased by approximately \$712,000 due to a change in Management's estimate of the collectability of patient accounts receivable as of June 30, 2021.

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

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Year Ended June 30, 2022

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, 2022 were approximately as follows:

Medicare	49%
Medicaid and Oregon Health Plan (OHP)	18
Commercial insurance and other negotiated contracts	28
Self-pay	5
	<hr/>
	100%

Property taxes receivable

The Hospital received approximately 5.7% of its financial support from property and other county taxes - net in 2022. Such funds were used to support the Hospital's operations and totaled \$2,116,833.

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, 2022 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.

Assets limited as to use

Assets limited as to use primarily consist of assets (money market accounts) from the Advance Payment Program and other financial assistance, and assets (cash deposits in the Oregon State Treasury Local Government Investment Pool (LGIP) 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. Purchased capital assets costing more than \$5,000 are recorded at historical cost. Capital assets costing \$5,000 or less are recorded as expense in the year of acquisition. Contributed capital assets are recorded at their estimated fair value at the time of their donation. Improvements and replacements of capital assets are capitalized. Routine maintenance and repairs are charged to expense as incurred.

All capital assets other than land are depreciated over their estimated useful lives using the straight-line method. Leases and subscription-based information technology (IT) arrangements (SBITAs) that are capitalized in accordance with new GASB standards (see below) are included in capital assets in the accompanying statement of net position and are amortized over the lease and/or contract terms. 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

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Year Ended June 30, 2022

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.

Leases

The Hospital has various leasing arrangements, which are primarily for certain real property such as medical office and clinic facilities, as well as for certain medical and office equipment. The Hospital determines if an arrangement is a lease at inception of the contract. For each lease, the Hospital records a lease asset (representing the right to use the underlying asset for the lease term) and a lease liability (representing the obligation to make lease payments required under the terms of the lease). Lease assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments required over the lease term. The Hospital uses its estimated incremental borrowing rate – derived from information available at the lease commencement date – as the discount rate when determining the present value of lease payments.

Many of the Hospital's lease agreements include one or more renewal options. Renewal terms generally extend the related lease from one to five years at the then market rate of rental payment or at a predetermined monthly payment in accordance with the lease agreement. All such renewal options are at the Hospital's discretion. Renewal options are evaluated at the commencement of each lease; only those that are reasonably certain of exercise are included in determining the appropriate lease term and for purposes of calculating the initial lease asset and lease liability.

Certain lease agreements for real property require variable lease payments based on actual common area maintenance expenses and/or real estate taxes. Variable lease payments may also include escalating rent payments that are not fixed at lease commencement but are based on an index that is determined in future periods based on changes in the Consumer Price Index or other measure of inflation. These variable lease payments are recognized in operating expenses but are not included in the lease asset or lease liability balances. The Hospital's lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

SBITAs

A SBITA is a contract that conveys to the Hospital control of the right to use another party's (i.e., a vendor's) IT software – alone or in combination with tangible capital assets – as specified in the contract for a period of time in an exchange or exchange-like transaction. The Hospital has various SBITAs which are primarily for certain IT software. The Hospital determines if an arrangement is a SBITA at inception of the contract. For each SBITA, the Hospital records a right-to-use subscription asset (i.e., an intangible asset representing the right to use the underlying IT software for the contract term) and a corresponding subscription liability (representing the obligation to make payments required under the terms of the contract). Subscription-based IT assets and liabilities are recognized at the commencement of the subscription term – which occurs when the initial implementation stage of an IT project is completed – based on the present value of subscription payments expected to be made during the subscription term. The Hospital uses its estimated incremental borrowing rate – derived from information available at the SBITA commencement date – as the discount rate when determining the present value of subscription payments.

Certain of the Hospital's SBITAs include one or more renewal options. Renewal terms generally extend the related subscription period for multiple one-year periods at a predetermined monthly payment in accordance with the SBITA contract. All such renewal options are at the Hospital's discretion. Renewal

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Year Ended June 30, 2022

options are evaluated at the commencement of each SBITA; only those that are reasonably certain of exercise are included in determining the appropriate subscription term and for purposes of calculating the initial right-to-use subscription asset and subscription liability.

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.

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, 2022, 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, 2018.

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

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Year Ended June 30, 2022

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.

Gross and net patient service revenue for services provided by the Hospital to Medicare, OHP, and Medicaid patients aggregated approximately \$40,446,000 and \$20,830,000, respectively, for the year ended June 30, 2022.

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, 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 9).

Operating revenue and expenses

The Hospital's statement of revenue, expenses, and changes in net position distinguishes 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 – including property and other county taxes - net, government stimulus income, gains on loan extinguishments, noncapital grants, and investment income – is reported as nonoperating revenue. 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, 2022, the Hospital received grants of \$1,738,375 from HHS under the Acts and \$758,860 in other grants and financial assistance to help with COVID-19 costs (both capital and noncapital). Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted either for specific operating purposes or for capital purposes. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted for capital acquisitions are reported after nonoperating revenue and expenses in the accompanying statement of revenue, expenses, and changes in net position.

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Year Ended June 30, 2022

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 \$1,017,000 for the year ended June 30, 2022, which are included in supplies and other operating expenses in the accompanying statement of revenue, expenses, and changes in net position.

In addition, the Hospital has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments to the Hospital related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to the Hospital. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to qualifying hospitals. Any such amounts received by the Hospital from OAHHS are reflected as a component of net patient service revenue in the accompanying statement of revenue, expenses, and changes in net position. Prepaid expenses and other current assets include approximately \$172,000 of provider taxes receivable due from OAHHS as of June 30, 2022, and other accrued liabilities include approximately \$172,000 of provider taxes payable to Oregon as of June 30, 2022, in the accompanying statement 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, 2022, 2021, or 2020.

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 June 2017, the GASB issued GASB 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. The Hospital adopted GASB 87 as of July 1, 2021. The adoption of GASB 87 resulted in an

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Notes to Financial Statements

Year Ended June 30, 2022

increase in right-to-use lease assets and related lease obligations of approximately \$508,000. Upon adoption of GASB 87, there was no cumulative effect impact on the Hospital's total net position. See Notes 6 and 8 for additional disclosures related to leases.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 provides guidance on the accounting and financial reporting for 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 IT project is completed. Although not required to adopt GASB 96 until the Hospital's fiscal year 2023, the Hospital elected to early adopt GASB 96 effective July 1, 2021 using a prospective application method. Management determined that the Hospital had no significant SBITAs as of July 1, 2021. The adoption of GASB 96 resulted in an increase in SBITA assets and related long-term obligations of \$269,818. Upon adoption of GASB 96, there was no cumulative effect impact on the Hospital's total net position. See Notes 6 and 8 for additional disclosures related to SBITAs.

2. Operations

During 2022 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; 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 – PPP loans (see Note 1) and other grants and financial assistance (see Note 1). Based on the changes implemented in recent fiscal years, the Hospital's plans to further improve operating results, the projected continuance of property tax receipts, and the existence of net current assets of \$7,401,426, and total net position of \$11,821,958 as of June 30, 2022, Management believes that cash flows will be adequate to fund the Hospital's operations through at least June 30, 2023. However, 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.

3. Deposits and Investments

Cash and cash equivalents and assets limited as to use consisted of the following as of June 30, 2022:

Cash and cash equivalents	
Cash on hand	\$ 1,817
Unrestricted cash deposits in a financial institution	92,307
LGIP	2,652,907
Money market accounts	2,461,173
Total cash and cash equivalents	<u>5,208,204</u>
Assets limited as to use	
Medicare accelerated payments – money market account	1,275,588
Deferred grant funds – money market account	141,162
LGIP	333,880
Other – cash deposits in a financial institution and LGIP	57,754
Total assets limited as to use	<u>1,808,384</u>
Less portion classified as current	<u>(1,416,750)</u>
Total assets limited as to use - net of current portion	391,634
Total cash and cash equivalents and assets limited as to use - net of current portion	<u>\$ 5,599,838</u>

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Fair value measurements

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

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

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

The Hospital's assets measured at fair value consist of 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 year ended June 30, 2022, 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

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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 June 30, 2022, the Hospital had deposits in a single financial institution exposed to custodial credit risk as follows:

Insured by the FDIC	\$ 250,000
Collateralized with securities held by the pledging financial institution's trust department or agent in other than the Hospital's name	4,025,551
Total	<u>\$ 4,275,551</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 depositories. As of June 30, 2022, 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.

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Year Ended June 30, 2022

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, 2022, the Hospital's deposits and investments with the LGIP totaled \$3,022,170 (approximately 43.1% of Hospital's total deposits and investments).

4. Patient Accounts Receivable

Patient accounts receivable consisted of the following as of June 30, 2022:

Receivable from patients and their insurance carriers	\$ 2,533,796
Receivable from Medicare - net	2,300,807
Receivable from OHP and Medicaid - net	<u>847,358</u>
Total patient accounts receivable	5,681,961
Less allowance for doubtful accounts	<u>(1,010,722)</u>
Patient accounts receivable - net	<u><u>\$ 4,671,239</u></u>

5. Capital Assets

The activity in the Hospital's capital assets and related accumulated depreciation and amortization accounts for the year ended June 30, 2022 was as follows:

	<u>July 1, 2021</u>	<u>Additions/ Provisions</u>	<u>Sales and Retirements</u>	<u>Transfers</u>	<u>June 30, 2022</u>
Depreciable capital assets					
Cost					
Land improvements	\$ 487,727	\$ -	\$ -	\$ -	\$ 487,727
Buildings and improvements	8,730,804	-	-	-	8,730,804
Leasehold improvements	1,207,881	-	(493,133)	58,345	773,093
Fixed equipment	533,772	-	-	60,966	594,738
Movable equipment	<u>7,175,860</u>	<u>114,280</u>	<u>(2,647,863)</u>	<u>833,558</u>	<u>5,475,835</u>
Total depreciable capital assets	<u>18,136,044</u>	<u>\$ 114,280</u>	<u>\$ (3,140,996)</u>	<u>\$ 952,869</u>	<u>16,062,197</u>
Accumulated depreciation and amortization					
Land improvements	289,152	\$ 16,605	\$ -	\$ -	305,757
Buildings and improvements	7,087,013	271,674	-	-	7,358,687
Leasehold improvements	537,889	90,102	(493,133)	-	134,858
Fixed equipment	419,472	23,307	-	-	442,779
Movable equipment	<u>5,659,136</u>	<u>469,704</u>	<u>(2,647,863)</u>	<u>-</u>	<u>3,480,977</u>
Total accumulated depreciation and amortization	<u>13,992,662</u>	<u>\$ 871,392</u>	<u>\$ (3,140,996)</u>	<u>\$ -</u>	<u>11,723,058</u>
Depreciable capital assets - net, excluding lease and SBITA assets	<u>4,143,382</u>				<u>4,339,139</u>
Nondepreciable capital assets					
Land	402,197	\$ -	\$ -	\$ -	402,197
Construction in progress	<u>328,575</u>	<u>749,548</u>	<u>(9,942)</u>	<u>(952,869)</u>	<u>115,312</u>
Total nondepreciable capital assets	<u>730,772</u>	<u>\$ 749,548</u>	<u>\$ (9,942)</u>	<u>\$ (952,869)</u>	<u>517,509</u>
Capital assets - net, excluding lease and SBITA assets	<u>\$ 4,874,154</u>				<u>4,856,648</u>
Lease and SBITA assets - net (Note 6)					<u>1,274,929</u>
Total capital assets - net as reported in the statement of net position					<u><u>\$ 6,131,577</u></u>

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6. Leases and SBITAs

A summary of lease and SBITA activity for the year ended June 30, 2022 is as follows:

	July 1, 2021	Additions	June 30, 2022
Lease assets			
Buildings	\$ 94,876	\$ -	\$ 94,876
Movable equipment	965,261	619,676	1,584,937
Total lease assets	<u>1,060,137</u>	<u>\$ 619,676</u>	<u>1,679,813</u>
Accumulated amortization			
Buildings	-	\$ 38,942	38,942
Movable equipment	339,535	296,813	636,348
Total accumulated amortization	<u>339,535</u>	<u>\$ 335,755</u>	<u>675,290</u>
Lease assets - net	<u>720,602</u>		<u>1,004,523</u>
SBITA assets	301,050	\$ 60,113	361,163
Accumulated amortization	-	\$ 90,757	90,757
SBITA assets - net	<u>301,050</u>		<u>270,406</u>
Total lease and SBITA assets - net	<u>\$ 1,021,652</u>		<u>\$ 1,274,929</u>

The Hospital leases certain radiological equipment, and variable lease payments are based on a percentage of gross billings for certain ultrasound charges and radiology professional fees. Variable payments under this agreement were approximately \$118,000 for fiscal year 2022. Total rent expense for short-term and variable payment lease arrangements not accounted for as lease assets was approximately \$343,000 for the fiscal year ended June 30, 2022.

7. Long-Term Obligations and Other Noncurrent Liabilities

A schedule of changes in the Hospital's long-term obligations and other noncurrent liabilities for the year ended June 30, 2022 is as follows:

	July 1, 2021	Additions	Reductions	June 30, 2022	Amounts Due Within One Year	Amounts Due After One Year
Long-term obligations						
Note payable to Umpqua	\$ 1,607,688	\$ -	\$ (215,080)	\$ 1,392,608	\$ 220,896	\$ 1,171,712
Note payable to the County	453,440	-	(224,515)	228,925	-	228,925
Total long-term obligations	<u>2,061,128</u>	-	(439,595)	1,621,533	220,896	1,400,637
Other noncurrent liabilities						
Medicare accelerated payments	3,604,143	-	(2,328,555)	1,275,588	1,275,588	-
PPP loans payable	2,006,521	3,123	(2,009,644)	-	-	-
Other - estimated medical malpractice claims liability (see Note 11)	420,000	-	-	420,000	-	420,000
Total other noncurrent liabilities	<u>6,030,664</u>	<u>3,123</u>	<u>(4,338,199)</u>	<u>1,695,588</u>	<u>1,275,588</u>	<u>420,000</u>
Total long-term obligations and other noncurrent liabilities, excluding lease and SBITA liabilities	<u>\$ 8,091,792</u>	<u>\$ 3,123</u>	<u>\$ (4,777,794)</u>	<u>\$ 3,317,121</u>	<u>1,496,484</u>	<u>1,820,637</u>
Lease and SBITA liabilities (Note 8)				1,002,641	491,674	510,967
Total long-term obligations as reported in the statement of net position				<u>\$ 4,319,762</u>	<u>\$ 1,988,158</u>	<u>\$ 2,331,604</u>

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Year Ended June 30, 2022

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.

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, 2022, Umpqua has indicated that the Debt Service Reserve Fund could be maintained within the LGIP account (see Note 3).

In the event of a default by the Hospital – such as failing to make payments on the Umpqua Loan Agreement as they are due or failing to comply with the required financial and operating covenants – all amounts due under the Umpqua Loan Agreement may, at Umpqua's discretion, become immediately due and payable by the Hospital.

As of June 30, 2022, scheduled principal and interest repayments on the Umpqua Loan Agreement were as follows:

Fiscal Years Ending		
June 30,	Principal	Interest
2023	\$ 220,896	\$ 34,316
2024	226,834	28,378
2025	232,931	22,281
2026	239,192	16,020
2027	245,621	9,591
2028	227,134	2,997
Total	<u>\$ 1,392,608</u>	<u>\$ 113,583</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

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Year Ended June 30, 2022

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).

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. 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. During the year ended June 30, 2022, five home sites were sold, and accordingly, the Developer remitted approximately \$184,000 to the Hospital. In addition, the Developer paid the Hospital approximately \$41,000 which represented the proceeds of certain tax refunds. The Hospital remitted such amounts to the County, reducing the receivable from the Developer and the payable to the County of approximately \$229,000. In addition, during the year ended June 30, 2022, the Developer sold seven of the lots to another developer (the New Developer) for \$230,000. As these lots are sold by the New Developer, one-seventh of this purchase price (approximately \$33,000) will be remitted from the New Developer to the Hospital, and the Hospital will remit such amounts to the County. Given that Management believes that it is remote that the approximate \$229,000 will not be paid by the Developer to the Hospital by May 30, 2028, and that it is remote that the Hospital will not pay the County the approximate \$229,000 by May 30, 2028, the receivable from the Developer and the note payable to the County are recorded as approximately \$229,000 as of June 30, 2022. In the accompanying statement of net position, amounts due from the Developer are included in other assets, and amounts due to the County are included in long-term obligations. 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.

8. Lease and SBITA liabilities

A summary of the changes in the lease and SBITA liabilities during the year ended June 30, 2022 is as follows:

	<u>July 1, 2021</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2022</u>	<u>Amounts due within one year</u>
Lease liabilities	\$ 768,714	\$ 619,676	\$ (601,384)	\$ 787,006	\$ 397,840
SBITA liabilities	269,818	60,113	(114,296)	215,635	93,834
Total lease assets	<u>\$ 1,038,532</u>	<u>\$ 679,789</u>	<u>\$ (715,680)</u>	<u>\$ 1,002,641</u>	<u>\$ 491,674</u>

As of June 30, 2022, scheduled principal and interest payments for leases were as follows:

<u>Fiscal Years Ending</u>	<u>Principal</u>	<u>Interest</u>
<u>June 30,</u>		
2023	\$ 397,840	\$ 22,486
2024	130,766	12,781
2025	87,407	8,864
2026	69,356	5,750
2027	69,971	2,682
Thereafter	31,666	1,441
Total	<u>\$ 787,006</u>	<u>\$ 54,004</u>

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Notes to Financial Statements

Year Ended June 30, 2022

As of June 30, 2022, scheduled principal and interest payments for SBITAs were as follows:

Fiscal Years Ending June 30,	Principal	Interest
2023	\$ 93,834	\$ 7,164
2024	77,698	3,766
2025	44,103	654
Total	<u>\$ 215,635</u>	<u>\$ 11,584</u>

9. Net Patient Service Revenue

Net patient service revenue for the year ended June 30, 2022 was comprised of the following:

Charges at established rates	<u>\$ 52,635,339</u>
Deductions	
Medicare, OHP, and Medicaid contractual allowances	19,614,174
Other contractual allowances	2,842,834
Provision for bad debts	1,180,970
Charity allowances	<u>207,435</u>
Total deductions	<u>23,845,413</u>
Net patient service revenue	<u>\$ 28,789,926</u>

Management estimates that the net cost of charity care provided was approximately \$135,000 for the year ended June 30, 2022. This estimate was based on the Hospital's overall ratio of costs to charges for the fiscal year. For the year ended June 30, 2022, approximately 6.9%, 1.4%, 2.2% and 3.2% of all inpatient admissions, outpatient visits, office visits, and emergency room visits, respectively, were classified as charity care.

10. Defined Contribution Retirement Plans

The Hospital has a defined contribution retirement plan (Lower Umpqua Hospital District Employees' Savings Plan) (the Original 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 Original Plan, and over time, the account balances of the Original Plan are being transferred to the New Plan, and eventually the Original Plan will be terminated. The Original 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 year ended June 30, 2022, 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 Hospital and can be amended or terminated by the Hospital at any time (subject to the Hospital's union contracts).

Aggregate participant and Hospital contributions to the Plans during the year ended June 30, 2022 were approximately \$655,000 and \$476,000, respectively.

Lower Umpqua Hospital District dba Lower Umpqua Hospital

Notes to Financial Statements

Year Ended June 30, 2022

11. 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, 2022. 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.

Significant contract

The Hospital had an agreement with EmCare, Inc. d/b/a Envision Physician Services (Envision), under which Envision provided emergency physician coverage in the Hospital's emergency department 24 hours a day, seven days a week. The agreement with Envision automatically renewed annually each April 1 unless cancelled by either party. The Hospital agreed to pay a monthly administrative fee for this service, based on the monthly patient volume in the emergency department. Under terms of the agreement with Envision, the fee chart was subject to annual negotiation and adjustment in an amount necessary to maintain compensation to Envision at "fair market value." During the year ended June 30, 2022, the Hospital incurred expense of approximately \$1,570,000, under the Envision agreement. Effective August 1, 2022, the Hospital terminated the agreement with Envision and entered into a three-year agreement for the same services with CEP America, LLC, dba Vituity.

Collective bargaining agreement (CBA)

As of June 30, 2022, approximately 53% and 15% 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, 2024.

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, 2022

	Revised/ Final Budget	Actual	Variance
Operating Revenue			
Net patient service revenue	\$ 26,065,609	\$ 28,789,926	\$ 2,724,317
Other revenue	3,055,000	2,015,636	(1,039,364)
Total operating revenue	29,120,609	30,805,562	1,684,953
Expenditures			
Personal services	18,601,551	19,792,330	1,190,779
Materials and services	12,843,554	14,445,600	1,602,046
Capital outlay	848,313	863,828	15,515
Debt service	292,000	1,307,489	1,015,489
Total expenditures	32,585,418	36,409,247	3,823,829
Operating Loss	(3,464,809)	(5,603,685)	(2,138,876)
Nonoperating revenue (expense)			
Property and other county taxes - net	1,995,000	2,116,833	121,833
Government stimulus income	-	1,738,375	1,738,375
Gain on PPP loan extinguishment	-	2,009,644	2,009,644
Noncapital grants	-	497,322	497,322
Investment income	-	29,113	29,113
Other - net	(57,000)	(41,593)	15,407
Total nonoperating revenue - net	1,938,000	6,349,694	4,411,694
Income (Loss) Before Capital Contributions	(1,526,809)	746,009	2,272,818
Capital contributions	-	261,538	261,538
Excess (deficit) of revenue over expenditures	(1,526,809)	1,007,547	2,534,356
Other	428,833	721,199	292,366
Increase (Decrease) in Net Position	(1,097,976)	1,728,746	2,826,722
Net Position - beginning of year	10,093,212	10,093,212	-
Net Position - June 30, 2022	\$ 8,995,236	\$ 11,821,958	\$ 2,826,722

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



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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 the business-type activities of Lower Umpqua Hospital District, dba Lower Umpqua Hospital (the Hospital), as of and for the year ended June 30, 2022, 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 October 24, 2022.

Compliance

As part of obtaining reasonable assurance about whether the Hospital's financial statements as of and for the year ended June 30, 2022, 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.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, and 279C).

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

- Expenditures for personal services, materials and services, capital outlay, and debt service exceeded the amounts budgeted for the year ended June 30, 2022.
- The Hospital's revised and approved budget resolution for fiscal year 2022 did not agree to the OR-LB-1 Form filed for fiscal year 2023.



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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control that we consider to be a significant deficiency.

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

October 24, 2022