



Report of Independent Auditors and
Financial Statements
With Supplementary Information

**Lower Umpqua Hospital District
dba Lower Umpqua Hospital**

June 30, 2023 and 2022

Table of Contents

	Page
Organization	1
Report of Independent Auditors	2
Management's Discussion and Analysis	6
Financial Statements	
Statements of Net Position	16
Statement of Revenue, Expenses, and Changes in Net Position	18
Statement of Cash Flows	19
Notes to Financial Statements	21
Supplementary Information	
Schedule of Revenue Expenditures and Changes in Net Position – Budget and Actual	43
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45
Report of Independent Auditors Required by Oregon State Regulations	47

**Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Organization
June 30, 2023**

Members of the Board of Directors as of July 1, 2023, are:

Mr. Ron Kreskey 323 Bittersweet Court Reedsport, OR 97467	President
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Mr. Leon Bridge 2700 Ridgeway Drive Reedsport, OR 97467	Treasurer
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Ms. Karen Bedard 2165 Winchester Avenue Reedsport, OR 97467	Member
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Ms. Cheryl Young 3539 South Smith River Road Reedsport, OR 97467	Member
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Ms. Laura McCorkle 469 Providence Drive Reedsport, OR 97467	Secretary
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Lower Umpqua Hospital District has designated the following registered agent and office as of July 1, 2023:

Registered agent	Ms. Melissa Cribbins
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Registered office	Lower Umpqua Hospital 600 Ranch Road Reedsport, OR 97467
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Report of Independent Auditors

The Board of Directors
Lower Umpqua Hospital District

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lower Umpqua Hospital District, which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Lower Umpqua Hospital District as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lower Umpqua Hospital District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of Lower Umpqua Hospital District as of June 30, 2022, were audited by other auditors whose report dated October 24, 2022, on those statements expressed an unmodified opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Lower Umpqua Hospital District'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.

Auditor's Responsibilities 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 auditor's 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 Lower Umpqua Hospital District'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 Lower Umpqua Hospital District'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Lower Umpqua Hospital District's financial statements. The schedule of Revenue, Expenditures, and Changes in Net Position – Budget and Actual is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of Revenue, Expenditures, and Changes in Net Position – Budget and Actual is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2023 on our consideration of the Lower Umpqua Hospital District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lower Umpqua Hospital District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lower Umpqua Hospital District's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated November 28, 2023, on our consideration of the Lower Umpqua Hospital District's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Portland, Oregon
November 28, 2023

Management's Discussion and Analysis

Lower Umpqua Hospital District dba Lower Umpqua Hospital Management's Discussion and Analysis Year ended June 30, 2023

Introduction

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, 2023, 2022, and 2021. Please read it in conjunction with the Hospital's financial statements, which begin on page 12.

Financial Highlights

In the fiscal year ending June 30, 2023, Hospital volumes continued moving toward more historical normalcy. The Coronavirus pandemic still had an effect on operations but to a lesser degree. Nursing and staff shortages continue to be an issue causing reliance on agency staffing.

Some key financial highlights are as follows:

- The Hospital reported operating losses of approximately \$4.6 million, \$4.7 million and \$5.5 million in fiscal years 2023, 2022 and 2021, respectively. While operating losses have improved, they are still historically high. This is partially attributable to the continuing economic inflation related to the COVID-19 pandemic – which has had a tremendous negative financial impact on labor and other operating costs. Other factors include generally low overall volume related to Covid effects on patient health care behavior.
- Operating revenue increased \$1.6 million and \$4.2 million in 2023 and 2022, respectively.
- Operating expenses increased \$1.4 million and \$3.4 million in 2023 and 2022, respectively.
- Nonoperating revenue decreased approximately \$3.7 million and \$2.4 million in fiscal years 2023 and 2022, respectively. The decreases are primarily the result of reduced Covid Stimulus relief recognition. In 2023 no covid stimulus relief was recognized versus \$3.7 million and \$6.2 million in 2022 and 2021, respectively.
- The Hospital's net position decreased by approximately \$2.1 million (or 17.6%) during fiscal year 2023. This contrasts with 2022 net position increase of approximately \$1.7 million (or 17.1%).

Overview of the Financial Statements

The Hospital's financial statements consist of three statements - the statement of net position: 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, 2023**

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?"

Financial Analysis of the Hospital

The Hospital's net position, the difference between its assets and liabilities as reported in the statement of net position is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic condition, population growth and new or revised governmental regulations and legislation should also be considered.

**Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Management's Discussion and Analysis
Year ended June 30, 2023**

Table 1: Assets, liabilities, and net position

	2023	June 30, 2022	2021
ASSETS			
Current assets	\$ 9,207,431	\$ 13,013,249	\$ 14,731,940
Restricted non-current cash and investments	402,514	391,634	1,082,082
Capital assets – net	4,356,108	4,856,648	5,086,737
Lease and subscription assets – net	1,750,195	1,274,929	-
Other noncurrent assets – net	97,484	228,925	453,440
	<u>15,813,732</u>	<u>19,765,385</u>	<u>21,354,199</u>
Total assets	\$ 15,813,732	\$ 19,765,385	\$ 21,354,199
LIABILITIES			
Current liabilities	\$ 3,652,741	\$ 6,103,497	\$ 6,273,661
Long-term obligations, net of current portion	1,042,356	908,963	1,823,936
Other current and noncurrent obligations	420,400	420,000	420,000
Lease and subscription obligation, net of current portion	953,785	510,967	-
	<u>6,069,282</u>	<u>7,943,427</u>	<u>8,517,597</u>
Total liabilities	6,069,282	7,943,427	8,517,597
Net position			
Net investment in capital assets	3,358,386	3,736,328	3,218,354
Restricted for debt service	333,880	333,880	333,880
Unrestricted	6,052,184	7,751,750	6,540,978
	<u>9,744,450</u>	<u>11,821,958</u>	<u>10,093,212</u>
Total net position	\$ 9,744,450	\$ 11,821,958	\$ 10,093,212

Factors affecting the Hospital's statement of net position in 2023 include:

- Current assets decreased by \$3.5 million primarily due to cash balance decreases in the amount of \$3.2 million. The decrease in cash is primarily due to a combination of loan repayments including Medicare Advance payment of approximately \$1.3 million and coverage of general operations.
- Capital assets – net decreased by approximately \$500,000 due to depreciation of existing Capital assets which were in excess of 2023 capital expenditures. District capital purchases included routine replacement and upgrade of equipment.
- Total liabilities decreased by \$1.8 million due to repayment of loans mentioned above.

**Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Management's Discussion and Analysis
Year ended June 30, 2023**

Table 2: Operating results and changes in net position

	2023	June 30, 2022	2021
OPERATING REVENUE			
Net patient service revenue	\$ 29,496,988	\$ 28,789,926	\$ 24,652,442
Other revenue	2,893,449	2,015,636	1,973,237
Total operating revenue	<u>32,390,437</u>	<u>30,805,562</u>	<u>26,625,679</u>
OPERATING EXPENSES			
Salaries and benefits	20,463,349	19,792,330	17,352,467
Supplies and other	6,961,612	6,970,268	6,744,391
Professional fees and purchased services	8,078,834	7,475,332	7,163,641
Depreciation and amortization	1,456,574	1,297,904	838,635
Total operating expenses	<u>36,960,369</u>	<u>35,535,834</u>	<u>32,099,134</u>
OPERATING LOSS	<u>(4,569,932)</u>	<u>(4,730,272)</u>	<u>(5,473,455)</u>
NONOPERATING REVENUE (EXPENSES)			
Property and other county taxes, net	2,372,421	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	226,566	497,322	79,028
Investment income	112,688	29,113	22,527
Interest expense	(185,621)	(152,214)	(147,862)
Other, net	(33,630)	(41,593)	2,833
Total nonoperating revenue, net	<u>2,492,424</u>	<u>6,197,480</u>	<u>8,272,704</u>
Income before capital contributions	(2,077,508)	1,467,208	2,799,249
Capital contributions	<u>-</u>	<u>261,538</u>	<u>10,532</u>
Increase in net position	(2,077,508)	1,728,746	2,809,781
NET POSITION, beginning of year	<u>11,821,958</u>	<u>10,093,212</u>	<u>7,283,431</u>
NET POSITION, end of year	<u>\$ 9,744,450</u>	<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, 2023**

Operating loss – The primary 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. However, 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. 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 reduced its operating losses by \$160,000 and \$750,000 in 2023 and 2022, respectively. However, 2023 the loss was still higher than historical averages. Significant components of the 2023 change in net position were:

- **Patient Days – Acute inpatient days** increased by 72 or 4%. This is the second year of increases and returning the hospital to inpatient levels seen before the Covid Crisis. **Emergency Room visits, Surgeries and Clinic visits** also followed suit with increases of 11%, 9% and 14%, respectively.
- **Salaries and benefits** – Salaries and benefits increased by approximately \$671,000 (3.4%) over the prior year. A significant portion of this increase was due to continued inflationary increases in labor costs required to remain competitive through the broad labor shortages. Total Full Time Equivalents in 2023 were 178 verses 183 in 2022. The Hospital currently has two unions with whom it must negotiate. As of June 30, 2023, the United Food and Commercial Workers union (UFCW) covered approximately 52% of the Hospital's employees, and the Teamsters Local 206 union (Teamsters) covered approximately 20%. The Hospital's agreement with the UFCW expires on November 30, 2023, and its agreement with the Teamsters expires on May 31, 2024.
- **Professional fees and purchased services** – Professional fees and purchased services increased by approximately \$604,000 (7.3%) in 2023. The increase correlates to additional utilization of contracted professional staffing to cover for the tight labor market.
- **Contractual Adjustments** – 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 \$20.5 million and \$19.6 million in fiscal years 2023 and 2022, respectively.

**Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Management's Discussion and Analysis
Year ended June 30, 2023**

- **Charity and Bad Debt** – 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 \$619,000 and \$451,000 in fiscal years 2023 and 2022, 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 \$784,000 and \$595,000 in fiscal years 2023 and 2022, 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. Amounts in 2023 were 2.4 million compared to 6.2 million in 2022. The reduction correlated with the elimination of Covid stimulus funds. Recognition of stimulus funds were zero and 3.7 million in 2023 and 2022, respectively.
- **Contributions and grants** – In fiscal years 2023 and 2022, there were approximately \$0 and \$262,000, respectively, in capital contributions. We are fortunate to have the support of Douglas County who provided \$250,000 of the 2022 contributions. In addition, in fiscal years 2023 and 2022, the Hospital received noncapital grants of approximately \$227,000 and \$479,000, respectively. Donations are made directly to the Hospital.

The Hospital's Cash Flows – The Hospital had negative cash flows from operating activities in the amounts of \$4.4 million, \$5.7 million and \$5.0 million in 2023, 2022 and 2021, respectively. Cash flows from operating activities decreased consistent with changes in operating losses.

The Hospital had positive cash flows from non-capital financing activities in the amount of \$2.5 million, \$4.4 million and \$4.3 million in 2023, 2022 and 2021, respectively. The significant cash flows in 2022 and 2021 included proceeds from Covid stimulus grants.

The Hospital had negative cash flows from capital and related financing activities in the amount of \$1.5 million, \$1.9 million and \$1.6 million in 2023, 2022 and 2021, respectively. This represents cash used in the acquisition of capital assets and the payment of principal and interest on debt.

The Hospital had positive cash flows from investing activities of \$1.6 million, \$4.5 million and \$6.1 million for 2023, 2022 and 2021, respectively.

**Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Management's Discussion and Analysis
Year ended June 30, 2023**

Capital Assets – As of June 30, 2023 and 2022 the Hospital had approximately \$4.4 million and \$4.9 million invested in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. In fiscal years 2023 and 2022, the Hospital acquired new equipment and made capital improvements costing approximately \$440,000 and \$864,000, respectively. In fiscal year 2023, the Hospital capital purchases included, Ultrasound machine, ICU Medical Pump upgrade, new flooring for operating room, reader board and routine upgrade and replacements for surgical and other equipment. The Hospital has found it more economical in many circumstances to lease its major equipment. This allows the Hospital to avoid some of the costs of obsolescence caused by technological changes. In 2023 the Hospital leased major equipment with operating lease expense in the amounts of \$638,000.

Long-term obligations – As of June 30, 2023, the Hospital had approximately \$2.7 million in long-term obligations outstanding (including the current portion). This compares to approximately \$2.6 million in long-term obligations outstanding as of June 30, 2022. Long-term obligations outstanding as of June 30, 2023, 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 Master Heights subdivision, a community development project discussed in the notes to the financial statements.

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 for services rendered will diminish. As a result, the Hospital has and will continue to incur significant net expense to bring these providers to Reedsport and to keep them here. The Hospital's participation in projects like the Master Heights Subdivision and a partnership with the local school district were, in part, to help ensure that the resources and infrastructure are available in Reedsport to assist the Hospital with this recruitment and retention issue.

The Hospital continues to face many of the same challenges that small, rural hospitals across our nation face, including concentration of credit risk, high Medicare and Medicaid populations, economically challenged communities, 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. 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.

**Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Management's Discussion and Analysis
Year ended June 30, 2023**

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 financial information, please contact the Hospital's Administration Office, at Lower Umpqua Hospital, 600 Ranch Road, Reedsport, Oregon 97467.

Financial Statements

Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Statements of Net Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,336,553	\$ 5,208,204
Patient accounts receivable, net of allowance for doubtful accounts of \$761,251 and \$1,010,772 as of June 30, 2023 and 2022, respectively	3,552,747	4,671,239
Property taxes receivable	268,635	230,716
Supplies inventory	844,695	766,780
Restricted cash and investments, current	77,144	1,416,750
Prepaid expenses and other current assets	1,033,178	719,560
Estimated third-party payor settlements receivable, net	94,479	-
Total current assets	<u>9,207,431</u>	<u>13,013,249</u>
RESTRICTED NONCURRENT CASH AND INVESTMENTS, NET	<u>402,514</u>	<u>391,634</u>
LEASE AND SUBSCRIPTION ASSETS, NET	<u>1,750,195</u>	<u>1,274,929</u>
CAPITAL ASSETS		
Depreciable capital assets, net of accumulated depreciation	3,897,428	4,339,139
Non-depreciable capital assets	<u>458,680</u>	<u>517,509</u>
Total capital assets, net	<u>4,356,108</u>	<u>4,856,648</u>
OTHER NONCURRENT ASSETS	<u>97,484</u>	<u>228,925</u>
Total assets	<u><u>\$ 15,813,732</u></u>	<u><u>\$ 19,765,385</u></u>

See accompanying notes.

Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Statements of Net Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 1,046,113	\$ 1,560,804
Accrued liabilities		
Payroll, payroll taxes, and withholdings	675,243	623,749
Paid time off	859,596	872,035
Other	242,869	181,512
Estimated third-party payor settlements payable, net	-	244,403
Current portion of long-term obligations	226,841	712,570
Deferred grant revenue	77,144	141,162
Lease and subscription obligations, current	524,935	491,674
Medicare accelerated payments	-	1,275,588
	<u>3,652,741</u>	<u>6,103,497</u>
TOTAL current liabilities		
	<u>3,652,741</u>	<u>6,103,497</u>
NONCURRENT LIABILITIES		
Long-term obligations, net of current portion	1,042,356	908,963
Estimated medical malpractice claims liability	420,400	420,000
Lease and subscription obligations, net of current portion	953,785	510,967
	<u>2,416,541</u>	<u>1,839,930</u>
TOTAL noncurrent liabilities		
	<u>2,416,541</u>	<u>1,839,930</u>
TOTAL liabilities	<u>6,069,282</u>	<u>7,943,427</u>
	<u>6,069,282</u>	<u>7,943,427</u>
NET POSITION		
Net investment in capital assets	3,358,386	3,464,039
Restricted for debt service	333,880	333,880
Unrestricted	6,052,184	8,024,039
	<u>9,744,450</u>	<u>11,821,958</u>
TOTAL net position		
	<u>9,744,450</u>	<u>11,821,958</u>
Total liabilities and net position	<u>\$ 15,813,732</u>	<u>\$ 19,765,385</u>
	<u>\$ 15,813,732</u>	<u>\$ 19,765,385</u>

See accompanying notes.

Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUE		
Net patient service revenue, net of provision for bad debts of \$784,025 and \$594,924 for the years ended June 30, 2023 and 2022, respectively	\$ 29,496,988	\$ 28,789,926
Other revenue	<u>2,893,449</u>	<u>2,015,636</u>
Total operating revenue	<u>32,390,437</u>	<u>30,805,562</u>
OPERATING EXPENSES		
Salaries and benefits	20,463,349	19,792,330
Supplies and other	6,961,612	6,970,268
Professional fees and purchased services	8,078,834	7,475,332
Depreciation and amortization	<u>1,456,574</u>	<u>1,297,904</u>
Total operating expenses	<u>36,960,369</u>	<u>35,535,834</u>
OPERATING LOSS	<u>(4,569,932)</u>	<u>(4,730,272)</u>
NONOPERATING REVENUE (EXPENSES)		
Property and other county taxes, net	2,372,421	2,116,833
Government stimulus income	-	1,738,375
Gain on Payroll Protection Program loan extinguishment	-	2,009,644
Noncapital grants	226,566	497,322
Investment income	112,688	29,113
Interest expense	(185,621)	(152,214)
Other, net	<u>(33,630)</u>	<u>(41,593)</u>
Total nonoperating revenue, net	<u>2,492,424</u>	<u>6,197,480</u>
(LOSS) INCOME BEFORE CAPITAL CONTRIBUTIONS	(2,077,508)	1,467,208
Capital contributions	<u>-</u>	<u>261,538</u>
(Decrease) increase in net position	(2,077,508)	1,728,746
NET POSITION, beginning of year	<u>11,821,958</u>	<u>10,093,212</u>
NET POSITION, end of year	<u>\$ 9,744,450</u>	<u>\$ 11,821,958</u>

See accompanying notes.

Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Statement of Cash Flows
June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	\$ 29,001,010	\$ 28,236,626
Payments to suppliers and contractors	(15,946,270)	(13,963,106)
Payments to employees	(20,362,937)	(19,725,917)
Other receipts and payments, net	2,893,449	(281,753)
Net cash used by operating activities	<u>\$ (4,414,748)</u>	<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	2,334,502	2,113,536
Noncapital grants	162,548	538,484
Net cash provided by noncapital financing activities	<u>2,497,050</u>	<u>4,390,395</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(309,425)	(853,886)
Payments on lease and SBITA liabilities	(645,796)	(715,680)
Principal paid on long-term obligations	(352,336)	(439,595)
Interest paid on leases, SBITAs, and long-term obligations	(185,621)	(152,214)
Capital contributions	-	261,538
Other, net	(33,630)	(41,593)
Net cash used by capital and related financing activities	<u>(1,526,808)</u>	<u>(1,941,430)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in restricted cash and investments	1,328,726	4,247,493
Increase in other noncurrent assets	131,441	224,515
Investment income	112,688	29,113
Net cash provided by investing activities	<u>1,572,855</u>	<u>4,501,121</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(1,871,651)</u>	<u>1,215,936</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,208,204</u>	<u>3,992,268</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 3,336,553</u></u>	<u><u>\$ 5,208,204</u></u>

Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Statement of Cash Flows
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
OPERATING LOSS	\$ (4,569,932)	\$ (4,730,272)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization	1,456,574	1,297,904
Provision for bad debts	784,025	1,180,970
Changes in certain operating assets and liabilities		
Patient accounts receivable	334,467	(2,177,207)
Estimated third-party payor settlements, net	(338,882)	442,937
Supplies inventory	(77,915)	61,202
Prepaid expenses and other current assets	(313,618)	86,148
Accounts payable	(514,291)	516,157
Accrued liabilities	100,412	(83,434)
Medicare accelerated payments	(1,275,588)	(2,328,555)
Net cash used by operating activities	<u>\$ (4,414,748)</u>	<u>\$ (5,734,150)</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCIAL ACTIVITIES		
Lease assets and liabilities recognized	<u>\$ 535,675</u>	<u>\$ 619,676</u>
Subscription-based information technology arrangement assets and liabilities recognized	<u>\$ 518,305</u>	<u>\$ 60,113</u>

See accompanying notes.

Lower Umpqua Hospital District

dba Lower Umpqua Hospital

Notes to Financial Statements

Note 1 – Business, Organization, and Summary of Significant Accounting Policies

Reporting entity – 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 have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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.

Budgetary information – ORS 440.403 establishes standard procedures relating to the preparation, adoption, and execution of the annual budget. Budgetary comparisons for enterprise funds are not required by GAAP. Accordingly, such comparisons of approved budgeted amounts with actual results of operations for individual funds prepared on a basis other than GAAP are set forth as supplementary information, as listed in the table of contents. Expenditure levels of control are personnel services, materials and services, capital outlay, debt service, and contingencies. After a public hearing on the budget, it is adopted and appropriations are made by June 30, which is prior to the start of the fiscal year. Expenditures cannot legally exceed appropriations and lapse at fiscal year-end. Action of the Board may transfer appropriations between control categories or amend the budget with notice.

The Board may change the budget throughout the year by transferring appropriations between levels of control and by adopting supplemental budgets as authorized by ORS. Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers and approval by the Board. Expenditure appropriations may not be legally over-expended except in the case of grant receipts that could not be reasonably estimated at the time the budget was adopted, and for debt service on new debt issued during the budget year. Management may transfer budget amounts between individual line items within the function group, but cannot make changes to the function groups themselves, which is the legal level of control.

Lower Umpqua Hospital District dba Lower Umpqua Hospital Notes to Financial Statements

Financial position, results of operations, and change in net position are reported on the basis of accounting principles generally accepted in the United States of America. The budgetary basis of accounting differs from generally accepted accounting principles. The budgetary basis statements provided as part of supplementary information elsewhere in this report are presented on the budgetary basis to provide a meaningful comparison to actual results with the budget. The budgetary basis of accounting is substantially the same as generally accepted accounting principles in the United States of America, with the exceptions that capital outlay expenditures are expensed when purchased, depreciation is not calculated, compensated absences are expensed when paid rather than when incurred and principal payment and proceeds on long-term debt are recorded in revenues when received and expenditures when paid.

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Enterprise fund accounting – The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on an accrual basis using the economic resources measurement focus.

Cash and cash equivalents – Cash and cash equivalents include certain highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost, which approximates market value.

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.

Lower Umpqua Hospital District dba Lower Umpqua Hospital Notes to Financial Statements

For patient accounts receivable due from self-pay patients which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill the Hospital records a significant allowance for doubtful accounts. The allowance for doubtful accounts is determined based primarily upon the Hospital's historical collection experience, the age of patients' accounts, Management's estimate of the patients' economic ability to pay, and the effectiveness of collection efforts. Patient accounts receivable balances are routinely reviewed in conjunction with historical collection rates and other economic conditions which might ultimately affect the collectability of patient accounts when considering the adequacy of the amounts recorded in the allowance for doubtful accounts. The difference between the Hospital's standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Recoveries of amounts charged off are added to the allowance for doubtful accounts. Actual write-offs have historically been within Management's expectations. Significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental health care coverage could affect the Hospital's collection of patient accounts receivable, cash flows, and results of operations.

Significant concentrations of net patient accounts receivable as of June 30 were approximately as follows:

	2023	2022
Medicare	50%	49%
Medicaid and Oregon Health Plan (OHP)	19%	18%
Commercial insurance and other negotiated contracts	25%	28%
Self-pay	6%	5%
	<u>100%</u>	<u>100%</u>

Property taxes – The Hospital received approximately 6.8% and 5.7% of its financial support from property taxes for the years ended June 30, 2023 and 2022, respectively.

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

The Hospital's property taxes receivable as of June 30, 2023 and 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 inventories – Supplies inventories, comprised primarily of medical and surgical inventories, are stated at lower of cost (first-in, first-out) or net realizable value.

Lower Umpqua Hospital District dba Lower Umpqua Hospital Notes to Financial Statements

Restricted cash and investments – Restricted cash and investments 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. Interest income on restricted assets is included in nonoperating revenue when earned. As of June 30, 2023 and 2022 current restricted cash and investments were \$77,144 and \$1,416,750, and non-current restricted cash and investments were \$402,514 and \$391,364, respectively.

Capital assets – The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Expenditures for maintenance and repairs are charged to operations as incurred. Improvements and replacements of capital assets are capitalized.

The Hospital evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method which best reflects the diminished service utility of the capital asset.

All capital assets other than land and construction in process are depreciated using the straight-line method of depreciation with useful lives as defined by the American Hospital Association guide "Estimated Useful Lives" publication. Depreciation can range from 5 years for high tech equipment to 40 years for new buildings.

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.

Lower Umpqua Hospital District dba Lower Umpqua Hospital Notes to Financial Statements

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. The Hospital adopted this accounting standard effective during the year ended June 30, 2022.

Subscription-based information technology arrangements – A subscription-based information technology arrangement (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 options are evaluated at the commencement of each SBITA; only those that are reasonably certain of exercise are included in determining the appropriate subscriptions of calculating the initial right-to-use subscription asset and subscription liability. The Hospital adopted this accounting standard effective during the year ended June 30, 2022.

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:

Lower Umpqua Hospital District dba Lower Umpqua Hospital Notes to Financial Statements

- *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.
- *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.

Operating revenues and expenses – The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Non-exchange revenues, including taxes, investment income, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

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.

Charity care – The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care expenses approximated \$422,000 and \$304,000 for the years ended June 30, 2023 and 2022, respectively. This estimate was based on the Hospital's overall ratio of costs to charges for the fiscal year.

Lower Umpqua Hospital District dba Lower Umpqua Hospital Notes to Financial Statements

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, 2023 and 2022, the Hospital received grants of \$0 and \$1,738,375 from HHS under the CARES Acts and \$226,000 and \$758,860 in other grants and financial assistance to help with COVID-19 costs, respectively (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.

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 \$896,000 and \$1,017,000 for the year ended June 30, 2023 and 2022, respectively, 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 Hospital Association of Oregon (HAO) which provides that all payments to the Hospital related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to HAO. HAO aggregates these payments, returning a portion to the Hospital. The remaining funds are pooled by HAO with like amounts received on behalf of other hospitals subject to the provider tax, and HAO 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 \$226,000 and \$172,000 of provider taxes receivable due from HAO as of June 30, 2023 and 2022, and other accrued liabilities include approximately \$226,000 and \$175,000 of provider taxes payable to Oregon as of June 30, 2023 and 2022, respectively, in the accompanying statement of net position. Generally, the amount of annual receipts from HAO matches the annual amount of taxes paid.

Income taxes – The Hospital is a municipal corporation under Oregon state law and is not subject to Federal income taxes.

**Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Notes to Financial Statements**

Recently issued accounting standards – In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. There are several elements of the Statement that are effective at different dates. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for the Hospital for the year ending June 30, 2023. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for the Hospital for the year ending June 30, 2024.

Note 2– Cash and Cash Equivalents

Cash and cash equivalents and restricted and cash and investments consisted of the following as of June 30, 2023:

	2023	2022
	<u>2023</u>	<u>2022</u>
CASH AND CASH EQUIVALENTS		
Cash on hand	\$ 1,879	\$ 1,817
Unrestricted cash deposits in a financial institution	(3,170)	92,307
LGIP	2,231,067	2,652,907
Money market accounts	1,106,777	2,461,173
	<u>3,336,553</u>	<u>5,208,204</u>
RESTRICTED CASH AND INVESTMENTS		
Medicare accelerated payments – money market account	-	1,275,588
Deferred grant funds – money market account	77,144	141,162
LGIP	333,880	333,880
Other, cash deposits in a financial institution and LGIP	68,634	57,754
	<u>479,658</u>	<u>1,808,384</u>
LESS PORTION CLASSIFIED AS CURRENT	<u>(77,144)</u>	<u>(1,416,750)</u>
Total restricted cash and investments, net of current portion	<u>402,514</u>	<u>391,634</u>
Total cash and cash equivalents and restricted cash and investments, net of current portion	<u>\$ 3,739,067</u>	<u>\$ 5,599,838</u>

Lower Umpqua Hospital District dba Lower Umpqua Hospital Notes to Financial Statements

The Hospital maintains their investments in the State of Oregon Local Government Investment Pool (LGIP), which is an alternate investment vehicle offered to participants that by law are made the custodian of, or have control of, any public funds. LGIP investments with remaining maturities of fewer than ninety days are carried at amortized cost, provided that the fair value of these instruments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. The LGIP investments are governed by a written investment policy that is reviewed annually by the Oregon Short-Term Fund Board. The Oregon Short-Term Fund Board is comprised of members of local government and private investment professionals, who are appointed by the Governor of the State of Oregon. The LGIP is not rated by any national rating service. The Hospital considers all investments to be cash and cash equivalents.

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, 2023, all of the Hospital's deposits in financial institutions in excess of FDIC coverage were maintained at a "qualified depository".

The ORS and the Hospital's investment policy authorize the Hospital to invest in general obligations of the U.S. and the agencies and instrumentalities of the U.S. or enterprises sponsored by the U.S. Government; debt obligations of the agencies and instrumentalities of Oregon (rated A- or better) and the states of Washington, Idaho, or California (rated AA- or better); time deposit open accounts, CDs, and savings accounts in insured institutions or credit unions; credit union share and savings accounts; fixed or variable life insurance or annuity contracts and guaranteed investment contracts issued by life insurance companies authorized to do business in Oregon; certain pooled trusts of public employers' deferred compensation funds; certain banker's acceptances; certain corporate indebtedness that is rated P-1 or Aa3 or better by Moody's Investors Service or A-1 or AA- or better by Standard & Poor's Corporation; certain corporate indebtedness issued by financial institutions that is rated P-2 or A3 or better by Moody's Investors Service or A-2 or A or better by Standard & Poor's Corporation; certain securities of an open-end or closed-end management investment company or investment trust; certain repurchase agreements; and shares of stock of a company, association, or corporation (including shares of a mutual fund) but only if such funds are set aside pursuant to a deferred compensation plan and are held in trust for the exclusive benefit of participants and their beneficiaries.

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

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.

**Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Notes to Financial Statements**

Custodial credit risk

Deposits – Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the Hospital will not be able to recover deposits. The Hospital does not have a deposit policy for custodial credit risk. As of June 30, 2023, of the Hospital's bank balance, approximately \$250,000 was fully covered by depository insurance and approximately \$3,086,553 exposed to custodial credit risk, as mitigated per ORS 295 described below. As of June 30, 2022, of the Hospital's bank balance, approximately \$250,000 was fully covered by depository insurance and approximately \$4,025,551 exposed to custodial credit risk, as mitigated per ORS 295 described below.

ORS 295 governs the collateralization of Oregon public funds. Oregon's Public Funds Collateralization Program (the PFCP) was created by the Office of the OST to facilitate bank depository, custodian, and public official compliance with ORS 295. Under the PFCP, which created a shared liability structure for participating depositories. These bank depositories are required to pledge collateral against any public funds' deposits in excess of deposit insurance amounts. Based on information that the banks are required to report quarterly, the PFCP calculates each depository bank's minimum collateral (maximum liability) that must be pledged with the custodian for the next quarter. The pledged securities are designated as subject to the pledge agreement between the depository bank, the custodian bank (the Federal Home Loan Bank of Des Moines, which acts as agent for the depository banks), and the OST, and are held for the benefit of the OST on behalf of the public depositors. As of June 30, 2023, the aggregate Oregon public fund collateral pledged exceeded 100% of the public fund deposits held by the Hospital's depository bank.

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, 2023 and 2022, the Hospital's deposits and investments with the LGIP totaled \$2,611,209 and \$3,022,170, respectively (approximately 68.0% and 43.1% of Hospital's total deposits and investments).

Note 3 – Net Patient Service Revenue

Net patient service revenue for the year ended June 30, 2023 was comprised of the following:

	<u>2023</u>	<u>2022</u>
Charges at established rates	\$ 54,233,491	\$ 52,635,339
Deductions		
Medicare, OHP, and Medicaid contractual allowances	20,527,312	19,614,174
Other contractual allowances	3,385,664	2,842,834
Provision for bad debts	473,059	1,180,970
Charity allowances	350,468	207,435
Total deductions	<u>24,736,503</u>	<u>23,845,413</u>
Net patient service revenue	<u>\$ 29,496,988</u>	<u>\$ 28,789,926</u>

Lower Umpqua Hospital District dba Lower Umpqua Hospital Notes to Financial Statements

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare – The Hospital is a critical access hospital (CAH) for Medicare program purposes. Among other rules, as a CAH, the Hospital may operate no more than 25 beds. In addition, the annual average length of stay for all acute inpatients cannot exceed 96 hours per stay. 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, 2021.

Medicare swing-bed services are also reimbursed at cost for a CAH. The Hospital is paid at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Oregon Health Authority through June 30, 2016.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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.

**Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Notes to Financial Statements**

Note 4 – Patient Accounts Receivable

Patient accounts receivable consisted of the following as of June 30, 2023

	2023	2022
Receivable from patients and their insurance carriers	\$ 2,073,311	\$ 2,533,796
Receivable from Medicare, net	1,725,842	2,300,807
Receivable from OHP and Medicaid, net	514,845	847,358
	<u>4,313,998</u>	<u>5,681,961</u>
Total patient accounts receivable		
	<u>(761,251)</u>	<u>(1,010,722)</u>
Less allowance for doubtful accounts		
Patient accounts receivable, net	<u>\$ 3,552,747</u>	<u>\$ 4,671,239</u>

During the years ended June 30, 2023 and 2022, net patient service revenue decreased by approximately \$1,288,000 and increased by approximately \$712,000 due to a change in the prior year estimate of the collectability of patient accounts receivable as of June 30, 2023 and 2022, respectively.

Note 5 – Property Taxes Receivable

For the fiscal year ended June 30, 2023, the Hospital levied their property taxes at the rate of \$3.9724 per \$1,000 of assessed property value. This levy was expected to raise \$2,491,097 in property tax revenues, including \$370 in additional taxes and penalties. The actual levy imposed for 2022–2023 was \$2,453,787. Property tax revenues are recognized when levied and are used to support general operations.

	Receivable June 30, 2022	2022-2023 Net Levy	Collections	Discounts and Adjustments Applied	Receivable June 30, 2023
2022-23	\$ -	\$ 2,453,787	\$ (2,289,669)	\$ (55,028)	\$ 109,090
2021-22	71,375	-	(25,370)	(7)	45,998
2020-21	33,548	-	(15,470)	(33)	18,045
2019-20	19,113	-	(12,521)	(52)	6,540
2018-19	65,544	-	(7,266)	(53)	58,225
2017-18	10,755	-	(817)	(101)	9,837
Prior Years	30,381	-	(1,615)	(7,866)	20,900
	<u>\$ 230,716</u>	<u>\$ 2,453,787</u>	<u>\$ (2,352,728)</u>	<u>\$ (63,140)</u>	<u>\$ 268,635</u>

For the fiscal year ended June 30, 2022, the Hospital levied their property taxes at the rate of \$3.9724 per \$1,000 of assessed property value. This levy was expected to raise \$2,344,662 in property tax revenues, including \$3,924 in additional taxes and penalties. The actual levy imposed for 2021-2022 was \$2,186,153. Property tax revenues are recognized when levied, and are used to support general operations.

**Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Notes to Financial Statements**

	Receivable June 30, 2021	2021-2022 Net Levy	Collections	Discounts and Adjustments Applied	Receivable June 30, 2022
2021-22	\$ -	\$ 2,186,153	\$ (2,047,687)	\$ (59,134)	\$ 79,332
2020-21	74,967	-	(40,589)	(829)	33,549
2019-20	33,646	-	(14,125)	(408)	19,113
2018-19	75,684	-	(9,838)	(302)	65,544
2017-18	18,216	-	(7,142)	(319)	10,755
2016-17	5,654	-	-	-	5,654
Prior Years	19,252	-	(1,464)	(1,019)	16,769
	<u>\$ 227,419</u>	<u>\$ 2,186,153</u>	<u>\$ (2,120,845)</u>	<u>\$ (62,011)</u>	<u>\$ 230,716</u>

Note 6 – Capital Assets

The following is a summary of changes in capital assets during the fiscal year ended June 30, 2023:

	July 1, 2022	Additions/ Provisions	Sales and Retirements	Transfers	June 30, 2023
Depreciable capital assets					
Cost					
Land improvements	\$ 487,726	\$ -	\$ -	\$ 59,461	\$ 547,187
Buildings and improvements	8,730,803	-	-	5,268	8,736,071
Leasehold improvements	773,093	-	-	36,223	809,316
Fixed equipment	594,738	-	-	-	594,738
Movable equipment	5,475,836	217	-	254,995	5,731,048
Total depreciable capital assets	16,062,196	217	-	355,947	16,418,360
Accumulated depreciation and amortization					
Land improvements	305,757	27,440	-	-	333,197
Buildings and improvements	7,358,687	148,257	-	-	7,506,944
Leasehold improvements	134,858	59,885	-	-	194,743
Fixed equipment	442,779	24,995	-	-	467,774
Movable equipment	3,480,975	549,388	-	(12,089)	4,018,274
Total accumulated depreciation and amortization	11,723,056	809,965	-	(12,089)	12,520,932
Depreciable capital assets, net, excluding lease and SBITA assets	4,339,140	(809,748)	-	368,036	3,897,428
Nondepreciable capital assets					
Land	402,197	-	-	-	402,197
Construction in progress	115,312	304,931	(7,813)	(355,947)	56,483
Total nondepreciable capital assets	517,509	304,931	(7,813)	(355,947)	458,680
Capital assets, net, excluding lease and SBITA assets	<u>\$ 4,856,649</u>	<u>\$ (504,817)</u>	<u>\$ (7,813)</u>	<u>\$ 12,089</u>	<u>\$ 4,356,108</u>
Lease and SBITA assets , net (Note 7)					1,750,195
Total capital, lease, and SBITA assets					<u>\$ 6,106,303</u>

Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Notes to Financial Statements

The following is a summary of changes in capital assets during the fiscal year ended June 30, 2022:

	July 1, 2021	Additions/ Provisions	Sales and Retirements	Transfers	June 30, 2022
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	7,175,860	114,280	(2,647,863)	833,558	5,475,835
Total depreciable capital assets	18,136,044	114,280	(3,140,996)	952,869	16,062,197
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	5,659,136	469,704	(2,647,863)	-	3,480,977
Total accumulated depreciation and amortization	13,992,662	871,392	(3,140,996)	-	11,723,058
Depreciable capital assets, net, excluding lease and SBITA assets	4,143,382	(757,112)	-	952,869	4,339,139
Nondepreciable capital assets					
Land	402,197	-	-	-	402,197
Construction in progress	328,575	749,548	(9,942)	(952,869)	115,312
Total nondepreciable capital assets	730,772	749,548	(9,942)	(952,869)	517,509
Capital assets, net, excluding lease and SBITA assets	\$ 4,874,154	\$ (7,564)	\$ (9,942)	\$ -	\$ 4,856,648
Lease and SBITA assets, net (Note 7)					1,274,929
Total capital, lease, and SBITA assets					\$ 6,131,577

Depreciation expense for the years ended June 30, 2023 and 2022 was \$809,965 and \$871,392, respectively.

**Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Notes to Financial Statements**

Note 7 – Leases and SBITA Assets

A summary of lease and SBITA activity for the year ended June 30, 2023 is as follows:

	July 1, 2022	Additions	Deletions and Transfers	June 30, 2023
Lease assets				
Buildings	\$ 94,876	\$ -	\$ -	\$ 94,876
Movable equipment	1,584,937	535,675	51,664	2,172,276
Total lease assets	1,679,813	535,675	51,664	2,267,152
Accumulated amortization				
Buildings	38,942	-	-	38,942
Movable equipment	636,348	436,505	(16,231)	1,056,622
Total accumulated amortization	675,290	436,505	(16,231)	1,095,564
Lease assets, net	1,004,523	99,170	67,895	1,171,588
SBITA assets	361,163	518,305	-	879,468
Total accumulated amortization	90,757	210,104	-	300,861
SBITA assets, net	270,406	308,201	-	578,607
Total lease and SBITA assets, net	\$ 1,274,929	\$ 407,371	\$ 67,895	\$ 1,750,195

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

	July 1, 2021	Additions	Deletions and Transfers	June 30, 2022
Lease assets				
Buildings	\$ 94,876	\$ -	\$ -	\$ 94,876
Movable equipment	965,261	619,676	-	1,584,937
Total lease assets	1,060,137	619,676	-	1,679,813
Accumulated amortization				
Buildings	-	38,942	-	38,942
Movable equipment	339,535	296,813	-	636,348
Total accumulated amortization	339,535	335,755	-	675,290
Lease assets, net	720,602	283,921	-	1,004,523
SBITA assets	301,050	60,113	-	361,163
Total accumulated amortization	-	90,757	-	90,757
SBITA assets, net	301,050	(30,644)	-	270,406
Total lease and SBITA assets, net	\$ 1,021,652	\$ 253,277	\$ -	\$ 1,274,929

Amortization expense for the years ended June 30, 2023 and 2022 was \$646,609 and \$426,512, respectively.

Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Notes to Financial Statements

Note 8 – Lease and SBITA Liabilities

A summary of the changes in the lease and SBITA liabilities during the year ended June 30, 2023 and 2022 is as follows:

2023

	July 1, 2022	Additions	Deductions	June 30, 2023	Amounts due within one year
Lease liabilities	\$ 787,006	\$ 482,365	\$ (292,051)	\$ 977,320	\$ 310,258
SBITA liabilities	215,635	639,510	(353,745)	501,400	214,677
Total lease assets	<u>\$ 1,002,641</u>	<u>\$ 1,121,875</u>	<u>\$ (645,796)</u>	<u>\$ 1,478,720</u>	<u>\$ 524,935</u>

2022

	July 1, 2021	Additions	Deductions	June 30, 2022	Amounts due within one year
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, 2023, future scheduled principal and interest payments for leases and SBITAs were as follows:

Year	Lease Liabilities		SBITA Liabilities	
	Principal	Interest	Principal	Interest
2024	\$ 310,257	\$ 37,113	\$ 214,678	\$ 17,908
2025	248,379	24,943	153,545	9,425
2026	256,905	13,194	42,226	4,592
2027	93,288	6,091	43,946	2,872
2028	53,696	2,164	21,567	23,040
2029-2033	14,795	381	25,438	662
	<u>\$ 977,320</u>	<u>\$ 83,886</u>	<u>\$ 501,400</u>	<u>\$ 58,499</u>

Lower Umpqua Hospital District dba Lower Umpqua Hospital Notes to Financial Statements

Note 9 – 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, 2023, is as follows:

	July 1, 2022	Additions	Reductions	June 30, 2023	Amounts Due Within One Year	Amounts Due After One Year
Long-term obligations						
Note payable to Umpqua	\$ 1,392,608	\$ -	\$ (220,896)	\$ 1,171,712	\$ 226,841	\$ 944,871
Note payable to the County	228,925	-	(131,440)	97,485	-	97,485
Total long-term obligations	1,621,533	-	(352,336)	1,269,197	226,841	1,042,356
Other noncurrent liabilities						
Medicare accelerated payments	1,275,588	-	(1,275,588)	-	-	-
Other – estimated medical malpractice claims liability (see Note 11)	420,000	400	-	420,400	-	420,400
Total other noncurrent liabilities	1,695,588	400	(1,275,588)	420,400	-	420,400
Total long-term obligations and other noncurrent liabilities, excluding lease and SBITA liabilities	<u>\$ 3,317,121</u>	<u>\$ 400</u>	<u>\$ (1,627,924)</u>	1,689,597	226,841	1,462,756
Lease and SBITA liabilities (Note 8)				1,478,720	524,935	953,785
Total long-term obligations including lease and SBITA liabilities and medicare accelerated payments				<u>\$ 3,168,317</u>	<u>\$ 751,776</u>	<u>\$ 2,416,541</u>

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	2,061,128	-	(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	6,030,664	3,123	(4,338,199)	1,695,588	1,275,588	420,000
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>	3,317,121	1,496,484	1,820,637
Lease and SBITA liabilities (Note 8)				1,002,641	491,674	510,967
Total long-term obligations including lease and SBITA liabilities and medicare accelerated payments				<u>\$ 4,319,762</u>	<u>\$ 1,988,158</u>	<u>\$ 2,331,604</u>

In May 2013, the Hospital entered into a loan agreement (the Umpqua Loan Agreement) with Umpqua to borrow \$3,338,800 to refinance certain prior debt. Borrowings under the Umpqua Loan Agreement are secured by substantially all assets of the Hospital. The Hospital is required to make payments in monthly installments of \$21,319 (with fixed interest at 2.62%) through June 2028, at which time all remaining outstanding principal and accrued interest is due.

Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Notes to Financial Statements

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 approximately \$334,000 and to meet a financial ratio covenant. As of June 30, 2023 and 2022, Umpqua has indicated that the Debt Service Reserve Fund could be maintained within the LGIP account.

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, 2023, scheduled principal and interest repayments on the Umpqua Loan Agreement were as follows:

		<u>Principal</u>	<u>Interest</u>
Year Ended June 30,	2024	\$ 226,841	\$ 33,202
	2025	232,931	26,270
	2026	239,192	19,123
	2027	245,621	11,753
	2028	<u>227,127</u>	<u>4,154</u>
	Total	<u><u>\$ 1,171,712</u></u>	<u><u>\$ 94,502</u></u>

**Lower Umpqua Hospital District
dba Lower Umpqua Hospital
Notes to Financial Statements**

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

During the year ended June 30, 2023, four home sites were sold, and accordingly, the Developer remitted approximately \$131,000 to the Hospital. 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, during the years ended June 30, 2023, and 2022, the Developer paid the Hospital approximately \$0 and, \$41,000 which represented the proceeds of certain tax refunds, respectively. The Hospital remitted such amounts to the County, reducing the receivable from the Developer and the payable to the County to approximately \$97,000 and \$229,000, respectively. 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.

Lower Umpqua Hospital District dba Lower Umpqua Hospital Notes to Financial Statements

Note 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, 2023 and 2022, the Hospital contributed 5% and 5% of eligible employees' compensation to the Plans, respectively. 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, 2023 and 2022 were approximately \$1,241,000 and \$1,127,000, respectively.

Note 11 – Commitments and Contingencies

Compliance with laws and regulations – The Hospital is subject to many complex federal, state, and local laws and regulations. Compliance with these laws and regulations is subject to government review and interpretation, and unknown or unasserted regulatory actions. Government activity with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding, and billing for services, has increased significantly. Violations of these laws can result in large fines and penalties, sanctions on providing future services, and repayment of past patient service revenues.

Risk management – The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption, errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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, 2023 and 2022.

Lower Umpqua Hospital District dba Lower Umpqua Hospital Notes to Financial Statements

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, 2023 and 2022, the Hospital incurred expense of approximately \$1,775,000 and \$1,570,000, under the Envision agreement. Effective August 1, 2023, the Hospital terminated the agreement with Envision and entered into a three-year agreement for the same services with CEP America, LLC, dba Vituity.

During the year ended June 30, 2023, the Hospital incurred expense of approximately \$1,628,000, under the CEP America, LLC, dba Vituity agreement.

Collective bargaining agreement (CBA) – As of June 30, 2023, approximately 52% and 20% 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. 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.

Supplementary Information

**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, 2023**

	Revised/ Final Budget	Actual	Variance
OPERATING REVENUE			
Net patient service revenue	\$ 33,260,787	\$ 29,496,988	\$ (3,763,799)
Other revenue	1,995,729	2,893,449	897,720
Total operating revenue	35,256,516	32,390,437	(2,866,079)
EXPENDITURES			
Personal services	20,880,973	20,463,349	(417,624)
Materials and services	15,263,798	15,040,446	(223,352)
Capital outlay	630,809	412,647	(218,162)
Debt service	406,535	1,167,523	760,988
Total expenditures	37,182,115	37,083,965	(98,150)
OPERATING LOSS	(1,925,599)	(4,693,528)	(2,767,929)
NONOPERATING REVENUE (EXPENSE)			
Property and other county taxes, net	2,150,000	2,372,421	222,421
Government stimulus income	-	-	-
Gain on PPP loan extinguishment	-	-	-
Noncapital grants	-	226,566	226,566
Investment income	20,000	112,688	92,688
Other, net	5,599	(33,630)	(39,229)
Total nonoperating revenue, net	2,175,599	2,678,045	502,446
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	250,000	(2,015,483)	(2,265,483)
Capital contributions	-	-	-
Excess (deficit) of revenue over expenditures	250,000	(2,015,483)	(2,265,483)
Other	-	(62,025)	(62,025)
Increase (Decrease) in Net Position	250,000	(2,077,508)	(2,327,508)
NET POSITION, beginning of year	8,995,236	11,821,958	2,826,722
NET POSITION, June 30, 2023	\$ 9,245,236	\$ 9,744,450	\$ 499,214

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

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

The Board of Directors
Lower Umpqua Hospital District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lower Umpqua Hospital District as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Lower Umpqua Hospital's basic financial statements, and have issued our report thereon dated November 28, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Portland, Oregon
November 28, 2023

Report of Independent Auditors Required by Oregon State Regulations

The Board of Directors
Lower Umpqua Hospital District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of Lower Umpqua Hospital District as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Lower Umpqua Hospital District's basic financial statements, and have issued our report thereon dated November 28, 2023.

Compliance

As part of obtaining reasonable assurance about whether the Lower Umpqua Hospital District's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules (OAR) 162-010-0000 to 162-010-0330, of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the financial statements: However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

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:

- Accounting records and internal control
- Public fund deposits
- Indebtedness
- Budget
- Insurance and fidelity bonds
- Programs funded from outside sources
- Investments
- Public contracts and purchasing

In connection with our testing, nothing came to our attention that caused us to believe Lower Umpqua Hospital District was not in substantial compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of ORS as specified in OAR 162-010-0000 through 162-010-0330 of the Minimum Standards for Audits of Oregon Municipal Corporations.

Internal Control Over Financial Reporting

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

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

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Board of Directors and management of Lower Umpqua Hospital District and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.



Tony Andrade, Partner for
Moss Adams LLP
Portland, Oregon
November 28, 2023