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Report of Independent Auditors
and Consolidated Financial Statements
with Supplementary Information

Sky Lakes Medical Center and Affiliates

September 30, 2023 and 2022



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Report of Independent Auditors

The Board of Directors
Sky Lakes Medical Center

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Sky Lakes Medical Center and Affiliates (the Medical Center), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Medical Center as of September 30, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 the Medical Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 and Note 7 to the consolidated financial statements, in 2023, the Medical Center adopted new accounting standards guidance, Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating balance sheet, consolidating statement of operations, consolidating statement of changes in net assets, combining balance sheet – obligated group, combining statement of operations – obligated group, and combining statement of changes in net assets – obligated group included on pages 41–48 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2024, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center'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 Medical Center's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is fluid and cursive, with "Moss" and "Adams" connected by a single stroke, and "LLP" in a smaller, separate area.

San Francisco, California
January 19, 2024

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
Sky Lakes Medical Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Sky Lakes Medical Center and Affiliates (the Medical Center), which comprise the consolidated balance sheet as of September 30, 2023, and the related consolidated statement of operations, statement of changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 19, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Medical Center'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center'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 Medical Center'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 the Medical Center's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated 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 Medical Center'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 Medical Center'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 fluid and cursive, with "Moss" and "Adams" connected by a single stroke, and "LLP" in a smaller, separate area.

San Francisco, California

January 19, 2024

Financial Statements

Sky Lakes Medical Center and Affiliates

Consolidated Balance Sheets

September 30, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 19,509,000	\$ 18,447,000
Patient accounts receivable, net	34,976,000	35,727,000
Other receivables	10,965,000	5,997,000
Risk pool withhold receivable	8,240,000	8,977,000
Supplies inventory	9,554,000	7,416,000
Prepaid expenses	7,433,000	5,593,000
Other current assets	<u>750,000</u>	<u>750,000</u>
Total current assets	<u>91,427,000</u>	<u>82,907,000</u>
ASSETS LIMITED AS TO USE		
PROPERTY AND EQUIPMENT, net	5,613,000	1,440,000
OPERATING LEASE RIGHT-OF-USE ASSETS		
INVESTMENTS	140,049,000	136,776,000
OTHER ASSETS		
Total assets	<u>955,000</u>	<u>1,011,000</u>
	<u><u>\$ 438,030,000</u></u>	<u><u>\$ 424,254,000</u></u>

See accompanying notes.

Sky Lakes Medical Center and Affiliates

Consolidated Balance Sheets

September 30, 2023 and 2022

	2023	2022
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 13,713,000	\$ 9,601,000
Accrued payroll	9,101,000	8,725,000
Accrued compensated absences	7,137,000	6,518,000
Accrued interest payable	246,000	241,000
Other accrued expenses	15,046,000	12,814,000
Estimated third-party payor settlements	735,000	1,838,000
Long-term debt, current portion	5,187,000	4,442,000
Operating lease obligations, current portion	413,000	-
Finance lease obligations, current portion	<u>709,000</u>	<u>422,000</u>
 Total current liabilities	 <u>52,287,000</u>	 <u>44,601,000</u>
LONG-TERM LIABILITIES		
Long-term debt, net of current portion, deferred financing costs, premium, and discount	60,678,000	60,776,000
Operating lease obligations, net of current portion	3,040,000	-
Finance lease obligations, net of current portion	4,907,000	5,650,000
Other long-term liabilities	<u>10,835,000</u>	<u>10,628,000</u>
 Total long-term liabilities	 <u>79,460,000</u>	 <u>77,054,000</u>
 Total liabilities	 <u>131,747,000</u>	 <u>121,655,000</u>
NET ASSETS		
Without donor restrictions		
Sky Lakes Medical Center	295,157,000	293,162,000
Non-controlling interest	<u>1,577,000</u>	<u>1,527,000</u>
 Total without donor restrictions	 <u>296,734,000</u>	 <u>294,689,000</u>
 With donor restrictions	 <u>9,549,000</u>	 <u>7,910,000</u>
 Total net assets	 <u>306,283,000</u>	 <u>302,599,000</u>
 Total liabilities and net assets	 <u>\$ 438,030,000</u>	 <u>\$ 424,254,000</u>

See accompanying notes.

Sky Lakes Medical Center and Affiliates
Consolidated Statements of Operations
Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
REVENUES		
Patient service revenue, net	\$ 308,587,000	\$ 287,485,000
Other revenue	<u>16,160,000</u>	<u>20,937,000</u>
 Total revenues	 <u>324,747,000</u>	 <u>308,422,000</u>
EXPENSES		
Salaries and benefits	154,078,000	139,787,000
Purchased services	51,836,000	52,819,000
Drugs	33,822,000	26,248,000
Supplies	18,138,000	20,309,000
Building and maintenance	18,732,000	16,814,000
Depreciation and amortization	12,113,000	12,013,000
Provider tax	16,004,000	15,126,000
Physician fees	10,661,000	10,253,000
Other	3,550,000	4,028,000
Interest expense	2,850,000	2,758,000
Insurance	3,102,000	1,788,000
Minor equipment	1,102,000	994,000
Professional fees	1,437,000	939,000
Rentals and lease expense	<u>607,000</u>	<u>1,070,000</u>
 Total expenses	 <u>328,032,000</u>	 <u>304,946,000</u>
OPERATING (LOSS) INCOME	 <u>(3,285,000)</u>	 <u>3,476,000</u>
OTHER INCOME (EXPENSE)		
Investment income	2,496,000	4,054,000
Change in unrealized gains and losses on investment securities	1,927,000	(3,032,000)
Contributions	207,000	629,000
Net assets released from restriction	876,000	853,000
Other non-operating expense	<u>(1,900,000)</u>	<u>(1,732,000)</u>
 Total other income, net	 <u>3,606,000</u>	 <u>772,000</u>
EXCESS OF REVENUES OVER EXPENSES	 <u>\$ 321,000</u>	 <u>\$ 4,248,000</u>

See accompanying notes.

Sky Lakes Medical Center and Affiliates
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess of revenues over expenses	\$ 321,000	\$ 4,248,000
Contributions	13,000	11,000
Net change in unrealized gains and losses on life insurance	<u>1,711,000</u>	-
Increase in net assets without donor restrictions	<u>2,045,000</u>	<u>4,259,000</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	1,186,000	1,835,000
Net change in unrealized gains and losses	975,000	(1,547,000)
Investment income	354,000	192,000
Net assets released from restrictions	<u>(876,000)</u>	<u>(853,000)</u>
Increase (decrease) in net assets with donor restrictions	<u>1,639,000</u>	<u>(373,000)</u>
CHANGE IN NET ASSETS	<u>3,684,000</u>	<u>3,886,000</u>
NET ASSETS, beginning of year	<u>302,599,000</u>	<u>298,713,000</u>
NET ASSETS, end of year	<u><u>\$ 306,283,000</u></u>	<u><u>\$ 302,599,000</u></u>

See accompanying notes.

Sky Lakes Medical Center and Affiliates
Consolidated Statements of Cash Flows
Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,684,000	\$ 3,886,000
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	12,113,000	12,013,000
Net amortization of premiums and accretion of discounts on investments held-to-maturity	592,000	995,000
Net amortization of premiums and accretion of discounts on bonds	(861,000)	(303,000)
Net amortization of deferred financing costs	(4,000)	54,000
Net change in unrealized gains and losses	(2,902,000)	4,579,000
Gain on sale of investments	(2,771,000)	(3,946,000)
Gain on sale of property and equipment	24,000	-
Net change in the cash surrender value of corporate owned life insurance	(1,711,000)	2,022,000
Non-cash lease expense	31,000	-
Contributions to non-controlling interest	(13,000)	(11,000)
(Increase) decrease in		
Patient accounts receivable, net	751,000	1,063,000
Other receivables	(4,968,000)	145,000
Risk pool withhold receivable	737,000	812,000
Supplies inventory	(2,138,000)	(439,000)
Prepaid expenses	(1,840,000)	(1,056,000)
Other assets	56,000	56,000
Increase (decrease) in		
Accounts payable	4,111,000	462,000
Accrued payroll	376,000	(4,943,000)
Accrued compensated absences	619,000	(41,000)
Accrued interest payable	5,000	2,000
Advance and refund liabilities	-	(25,729,000)
Other accrued expenses	2,232,000	(2,984,000)
Estimated third-party payor settlements	(1,103,000)	(10,380,000)
Other long-term liabilities	207,000	(65,000)
Net cash provided by (used in) operations	<u>7,227,000</u>	<u>(23,808,000)</u>

See accompanying notes.

Sky Lakes Medical Center and Affiliates
Consolidated Statements of Cash Flows
Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/redemption of investments	\$ 21,315,000	\$ 21,527,000
Purchase of investments	(7,140,000)	(17,302,000)
Purchase of corporate owned life insurance	(6,000,000)	(2,364,000)
Purchase of property and equipment	<u>(15,410,000)</u>	<u>(11,609,000)</u>
Net cash flows used in investing activities	<u>(7,235,000)</u>	<u>(9,748,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of Series 2022 Bonds	11,000,000	-
Proceeds from issuance of new bank loan	1,890,000	3,775,000
Payments on long-term debt	(11,377,000)	(4,411,000)
Payments on finance lease obligations	(456,000)	(149,000)
Contributions from non-controlling interest	<u>13,000</u>	<u>11,000</u>
Net cash flows provided by (used in) financing activities	<u>1,070,000</u>	<u>(774,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,062,000	(34,330,000)
CASH AND CASH EQUIVALENTS, beginning of year	18,447,000	52,777,000
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 19,509,000</u>	<u>\$ 18,447,000</u>
 SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 2,845,000</u>	<u>\$ 2,961,000</u>
Non-cash investing and financing activities		
Right-of-use assets obtained with finance leases	<u>\$ 4,641,000</u>	<u>\$ -</u>
Right-of-use assets obtained with operating leases	<u>\$ 3,843,000</u>	<u>\$ -</u>

See accompanying notes.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Note 1 – Description of Organization and Summary of Significant Accounting Policies

Organization

Sky Lakes Medical Center (the Medical Center) is a not-for-profit hospital located in south-central Oregon. The Medical Center provides inpatient, outpatient, and emergency care services to the residents of Southern Oregon and Northern California. The Medical Center was incorporated in Oregon in 1963.

Principles of consolidation

The consolidated financial statements include the accounts of the Medical Center and all of its wholly-owned and majority-owned subsidiaries. There are four other entities included in these consolidated financial statements:

West Physician Services, LLC dba Sky Lakes Physician Services (WPS) – West Physician Services, LLC dba Sky Lakes Physician Services was established by the Medical Center in 2003 to provide specialty care to patients. The Medical Center is the sole member of WPS.

Sky Lakes Medical Center Foundation, Inc. (the Foundation) – Sky Lakes Medical Center Foundation is a not-for-profit corporation formed to advance the work of the Medical Center through philanthropy. The Foundation is led by a board of directors who serve voluntarily and are elected by the Medical Center.

Klamath Medical Business Center, LLC (KMBC) – In 2004, the Medical Center, together with Cascade Comprehensive Care, Inc. (CCC), formed Klamath Medical Business Center, LLC. The Medical Center directly owns 50% of KMBC. In addition, they indirectly own approximately 17% through their ownership in CCC (Note 3). In addition, the Medical Center performs management functions for KMBC. KMBC exists for the purpose of leasing building facilities to the Medical Center and CCC.

KW Campus, LLC (KW) – In 2015 the Medical Center, together with an unrelated limited liability entity formed KW Campus, LLC. KW was formed to develop a central campus in Klamath Falls, Oregon that is home to a variety of organizations whose purpose is to deliver health care, wellness and safety services, and provide opportunities for those served to improve their lives through effort and reward as part of their journey to self-sufficiency. The Medical Center directly owns 50% of KW and performs some of the management functions for KW.

All significant intercompany transactions have been eliminated in consolidation.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Basis of presentation

The consolidated financial statements are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and in accordance with the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*. The Medical Center has implemented ASC 958 and has adjusted the presentation in these consolidated financial statements, accordingly, including changes to the presentation of net asset classification on the financial statements, inclusion of information about liquidity and availability of resources (Note 13), and inclusion of information provided about expenses (Note 14). Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and *reported as follows*:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of estimates

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

Significant estimates are necessary in determining the fair value of investments, the recorded value of the implicit and explicit price concessions, amount due to or from third parties, risk pool withhold receivable, present value of lease liabilities, and useful lives of fixed assets. Management believes the assumptions used in arriving at these estimates are reasonable.

Fair value measurements

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Market participants are buyers and sellers, who are independent, knowledgeable, and willing and able to transact in the principal (or most advantageous) market for the asset or liability being measured.

Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, management determines the fair value of the Medical Center's assets and liabilities using valuation models or third-party pricing services, both of which rely on market-based parameters when available, such as interest rate yield curves, option volatilities, and credit spreads. The valuation techniques used are based on observable and unobservable inputs.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Unless otherwise indicated, the fair value of all reported assets and liabilities that represented financial instruments approximate their carry values. The Medical Center's policy is to recognize transfers in and out of Level 1 and Level 2 as of the end of the reporting period. Please see Note 4 for the fair value hierarchy disclosure of investments.

Cash and cash equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. Financial instruments potentially subjecting the Medical Center to concentrations of credit risk consist primarily of bank demand deposits in excess of FDIC insured limits. The Medical Center has not experienced any losses in such accounts.

If any of the financial institutions with whom we do business were to be placed into a receivership, we may be unable to access the cash and cash equivalents we have on deposit with such institutions. The Medical Center has not experienced any losses in such accounts. The Medical Center believes it is not exposed to any significant credit risk on cash and cash equivalents.

Patient accounts receivable

At September 30, 2023 and 2022, patient accounts receivable are reported at the estimated amount to which the Medical Center believes it is entitled in exchange for patient care provided. As of September 30, 2023 and 2022, the Medical Center's net patient accounts receivable included recorded explicit and implicit price concessions based upon contractual terms and historical collection experience (Note 2).

Patient accounts receivable, net as of September 30, 2021 was \$36,790,000.

The mix of gross receivables from patients and third-party payors was as follows at September 30:

	<u>2023</u>	<u>2022</u>
Medicare	41%	39%
Medicaid	22%	21%
Other third-party payors	34%	36%
Self-pay	3%	4%
 Total	 <u>100%</u>	 <u>100%</u>

Other receivables

Other receivables consist mainly of the receivable from provider tax receivable, employee loan receivables, physician loan receivables, and other miscellaneous receivables. These receivables are reduced by an allowance for doubtful accounts determined on a specific reserve basis.

Risk pool withhold receivable

The risk pool withhold receivable represents funds withheld from claims paid to the providers. Based upon carrier's performance, the funds are either retained by the insurer or paid to the Medical Center.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Supplies inventory

Supplies inventory consist mainly of patient supplies and pharmaceuticals and are carried at the lower of cost (primarily average cost) or net realizable value.

Assets limited as to use

Assets limited as to use include assets held by trustees under indenture agreements.

Property and equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under finance lease agreements are stated at the lesser of the present value of minimum lease payments or the fair value of leased assets at lease inception. Maintenance and repairs are charged to expense as incurred; major improvements are capitalized. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained; expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Investments

Investment securities that management has the positive intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the effective interest method over the period remaining until maturity. All other investments are measured at fair value on the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in the excess of revenues over expenses unless the investments are held to maturity or donor restricted.

Financial instruments potentially subjecting the Medical Center to concentration of credit risk include cash held in money market accounts in excess of the amounts insured by the U.S. Treasury insurance for money market funds, and various debt and equity investments in excess of the Securities Investor Protection Corporation insurance. The Medical Center has not experienced any losses in such accounts.

The Medical Center has purchased various cash-surrender value life insurance policies on key management. The policies are recorded at the estimated cash-surrender value of the policies. Increases in the cash-surrender value are recorded as investment income.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

The Medical Center also has various investments in health-related organizations. Generally, when the ownership interest in health-related activities is more than 50%, the activities are consolidated, and a minority interest is recorded if appropriate. When the ownership interest is at least 20%, but not more than 50%, it is typically accounted for under the equity method of accounting, and the income or loss is reflected in net revenue. Activities with less than 20% ownership or lacking significant influence over the operations of the related entity are carried at the lower of cost or estimated net realizable value.

Health insurance

The Medical Center offers health insurance (the Employee Benefit Plan) to its active employees and families. The Medical Center pays approximately 80% of the premium and employees contribute the remaining 20% through bi-weekly payroll deductions. The Employee Benefit Plan provides medical, dental, vision, and prescription coverage. The Employee Benefit Plan is self-funded, but is reinsured through HM Life Insurance Company with a specific attachment point of \$300,000 per covered individual annually plus a \$60,000 aggregating specific with an unlimited lifetime maximum. The Medical Center has established reserve amounts based upon information as to the status of claims plus development factors for incurred but not yet reported claims and anticipated future changes in underlying case reserves. Such reserve amounts are only estimates and there can be no assurance that the Medical Center's future Employee Benefit Plan obligations will not exceed the amount of its reserves. The Medical Center's reserve for health insurance was approximately \$3,804,000 and \$3,006,000 at September 30, 2023 and 2022, respectively, and is included in accrued payroll on the consolidated balance sheets.

Workers' compensation

The Medical Center is self-funded for workers' compensation insurance, but is reinsured through Safety National Casualty Corporation with a specific attachment point of \$500,000 per claim. The Medical Center has contracted with Tristar Risk Management to act as the third-party administrator to process and pay claims. The Medical Center has established reserve amounts based upon information as to the status of claims plus development factors for incurred but not yet reported claims and anticipated future changes in underlying case reserves. Such reserve amounts are only estimates and there can be no assurance that the Medical Center's future workers' compensation obligations will not exceed the amount of its reserves. The Medical Center's reserve for workers' compensation was \$361,000 and \$531,000 at September 30, 2023 and 2022, respectively, and is included in accrued payroll on the consolidated balance sheets. Further, the Department of Consumer and Business Services Workers' Compensation Division requires a security deposit be maintained to support expected future claims and processing costs. As of September 30, 2023, the security deposit requirement was \$424,000. To fulfill the security deposit requirement, the Medical Center has a standby letter of credit with US Bank for \$424,000 with an expiration date of July 31, 2024.

Estimated malpractice costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Estimated malpractice costs are included in other accrued expenses on the consolidated balance sheets and were approximately \$394,000 and \$345,000 as of September 30, 2023 and 2022, respectively. The Medical Center estimated \$0 and \$100,000 of insurance recoveries as of September 30, 2023 and 2022, respectively, which are included in other receivables on the consolidated balance sheets.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Patient service revenue and accounts receivable

Patient service revenue is reported at the amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for providing patient care. These amounts, representing transaction price, are due from third-party payors (including health insurers and government programs), patients and others. Generally, the Medical Center bills the third-party payors and patients several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

The Medical Center measures the performance obligation as the time the services are performed. Because all of its performance obligations relate to contracts with a duration of less than one year, the Medical Center has elected to apply the optional exemption provided in FASB Accounting Standards Codification (ASC) 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The performance obligations for these contracts are generally completed at the time of service.

The Medical Center is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to patient service revenue. The Medical Center accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. As a result, the Medical Center has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

The Medical Center has agreements with third-party payors, which include commercial insurance and preferred provider organization (PPO) contracts, managed care contracts with health maintenance organizations (HMOs), Medicare and Medicaid, and other third-party payors, that generally provide for payments to the Medical Center at amounts different from its established rates. The Medical Center recognizes revenue based on established or contracted rates, subject to certain discounts and implicit price concessions as determined by the Medical Center. The Medical Center determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Medical Center's policy, and implicit price concessions provided to patients. Implicit price concessions represent differences between amounts billed and the estimated consideration the Medical Center expects to receive from payors and patients, which are determined based on historical collection experience, current market conditions and other factors. The Medical Center determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience.

Entities doing business with governmental payors, including Medicare and Medicaid, are subject to risks unique to the government-contracting environment that is difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by the federal, state, or local governments (collectively "Government Agents"). Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Moreover, different Government Agents frequently interpret government regulations or other requirements differently. For example, Government Agents might disagree on a patient's principal medical diagnosis, the appropriate code for a clinical procedure, or many other matters. Such disagreements might have a significant effect on the ultimate payout due from the government to fully recoup sums already paid. Governmental agencies may make changes in program interpretations, requirements, or "conditions of participation," some of which may have implications for amounts previously estimated. In addition to varying interpretation and evolving codification of the regulations, standards of supporting documentation and required data are subject to wide variation.

In accordance with U.S. GAAP, to account for the uncertainty around Medicare and Medicaid revenues, the Medical Center estimates the amount of revenue that will ultimately be received under the Medicare and Medicaid programs. Amounts ultimately received or paid may vary significantly from these estimates.

In accordance with the terms of the Medical Center's contracts with certain managed care plans (MCPs), a percentage of the Medical Center's reimbursement is retained by the MCPs in risk pool reserves. To the extent that actual health care costs are less than agreed-upon medical target loss ratios, a portion of such amounts is returned to the Medical Center. Conversely, for certain MCPs, to the extent that actual health care costs exceed such targets, the Medical Center must reimburse these MCPs for a portion of such excess. Consequently, the Medical Center is at risk to the extent that actual health care costs exceed target loss ratios for certain MCPs.

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance established by their insurance plans, which vary in amount. The Medical Center estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period such changes occur or it can be reasonably determined such change is probable. Adjustments arising from a change in the transaction price were not significant in the years ended September 30, 2023 and 2022.

Charity care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The policy of the Medical Center for charity care includes providing non-elective services to patients whose household income falls at or below 250% of the Federal Poverty Level at no cost. For those patients who fall between 250% and 400% of the Federal Poverty Level and who are unable to pay their bills, patients are eligible for either a partial write-off of their account, annual maximum out of pocket, or both. The policy applies to both insured patients as well as uninsured patients provided the patient meets the eligibility criteria. Total cost of charity care provided by the Medical Center was approximately \$3,535,000 and \$3,239,000 for the years ended September 30, 2023 and 2022, respectively.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Donated restricted gifts

Unconditional promises to give cash and other assets to the Medical Center are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received.

The gifts are reported as net assets with donor restrictions support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets are reclassified as without donor restrictions and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the financial statements.

Performance indicator

Excess of revenues over expenses reflected in the consolidated statements of operations is the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include the net change in unrealized gains and losses on life insurance, donor restricted investments, contributions, and distributions.

Volunteers

A significant portion of the Medical Center's gift shop operations and patient relations functions are conducted by unpaid volunteers. The value of this contributed time is not reflected in the consolidated financial statements since the volunteers' time does not meet the criteria for recognition.

Leases

On October 1, 2022, the Medical Center adopted FASB Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). ASU No. 2016-02 requires lessees to recognize on the balance sheet the assets and liabilities arising from operating leases, including a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term.

The Medical Center makes a determination if an arrangement constitutes a lease at inception, and categorizes the lease as either an operating or finance lease. Operating leases are included in operating lease right-of-use assets and operating lease liabilities in the Medical Center's balance sheets. Finance leases are included in property and equipment, net and other liabilities in the consolidated balance sheets. Leases with an initial term of twelve months or less are not recorded on the consolidated balance sheets; costs for these leases are recognized on a straight-line basis over the lease term. A lessee should include payments to be made in an optional period only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. For operating leases, the lease cost is recognized over the lease term on a generally straight-line basis. The Medical Center has elected to separate lease and non-lease components for the purposes of measuring lease liabilities and right-of-use assets. To measure the lease liabilities and right-of-use assets at present value for leases in which the discount rate implicit in the lease contract is not readily determinable, the Medical Center has elected to use the risk-free rate commensurate with the lease term for all classes of assets.

Sky Lakes Medical Center and Affiliates

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The Medical Center evaluates the carrying value of right-of-use assets for indicators of impairment and performs an analysis of the recoverability of the related asset group. If the carrying value of the asset group is determined to be in excess of the estimated fair value, the Medical Center will record an impairment loss in the consolidated statements of operations. Additionally, the Medical Center reviews the carrying value of the right-of-use assets for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable, require reassessment of the leases, and remeasurement if needed.

For the year ended September 30, 2022, the Medical Center accounted for lease transactions in accordance with FASB ASC Topic 840, *Leases*. Under that guidance, the Medical Center classified leases as either operating or capital leases. Leases that met the criteria for capital leases were recognized as assets and liabilities on the consolidated balance sheets, while leases that did not meet the criteria for capital leases were recognized as operating leases and lease payments were recognized as expense on a straight-line basis.

Income taxes

The Medical Center and Foundation are tax-exempt organizations and are not subject to state or federal income taxes, except on unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code.

The Medical Center and Foundation had no unrecognized tax benefits at September 30, 2023 or 2022. The Medical Center and Foundation recognize interest accrued and penalties related to unrecognized tax benefits as an administrative expense. During the years ended September 30, 2023 and 2022, the Medical Center and Foundation recognized no interest and penalties.

The Medical Center files an exempt organization information return and an unrelated business income tax return in the U.S. federal jurisdiction and an unrelated business income tax return with the Oregon Department of Revenue.

The Foundation files an exempt organization information return in the U.S. federal jurisdiction.

WPS, the Medical Center's for-profit corporate subsidiary, accounts for income taxes in accordance with Accounting Standards Codification ("ASC") 740-10, whereby, income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. WPS has no history of sustained profitability and any deferred tax assets, net of liabilities, has been fully reserved for at September 30, 2023 and 2022.

KMBC and KW have elected to be taxed under the provisions of the Oregon Limited Liability Company Act. Under those provisions, the LLC's do not pay federal income tax on their taxable income. Instead, the members are liable for income taxes on each LLC's taxable income.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Adoption of new accounting standards

In February 2016, the FASB issued Leases (Topic 842) ("ASU 2016-02"), whereby a lessee will be required to recognize for all leases at the commencement date a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. ASU 2016-02 is effective for the Medical Center's annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

On January 1, 2022, the Medical Center adopted ASU 2016-02 and subsequent updates, collectively referred to as Topic 842, using the modified retrospective transition approach provided in ASC 842-10-65-1(c)(2), which requires recognition of the cumulative effect adjustment, if any, of initially applying the standard to the opening balance of retained earnings in the period of adoption (i.e., October 1, 2022). There was no cumulative adjustment to be recognized at October 1, 2022.

In addition, the Medical Center adopted the package of practical expedients in transition, which permits them to not reassess their prior conclusions pertaining to lease identification, lease classification and initial direct costs on leases that commenced prior to the adoption of the new standard. The Medical Center also elected the ongoing practical expedient to not recognize operating lease right-of-use assets and operating lease liabilities related to short-term leases.

Reclassifications

Certain financial statement reclassifications have been made to prior year amounts to conform to current year presentation. The reclassifications had no impact on the consolidated statements of changes in net assets.

Subsequent events

Subsequent events are events or transactions that occur after the consolidated balance sheet date but before consolidated financial statements are issued. The Medical Center recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Medical Center's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before consolidated financial statements are issued.

Subsequent to year end the Medical Center purchased a fitness center in Klamath Falls, Oregon.

The Medical Center has evaluated subsequent events through January 19, 2024, which is the date the consolidated financial statements were issued.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Note 2 – Net Patient Service Revenue

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

- *Medicare* – Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Medical education costs and uncollected bad debts on patient accounts related to Medicare beneficiaries are paid based on a modified cost reimbursement methodology. The Medical Center is a Medicare Designated Sole Community Hospital (SCH). As such, the Medical Center receives certain payment enhancements and protections to the hospital. For inpatient services, Sole Community Hospitals receive the higher of payments under 1) the Inpatient Prospective Payment System or 2) an updated hospital-specific rate, which are payments based on their costs in a base year (1982, 1987, or 1996) updated to the current year and adjusted for changes in their case mix. Since 2006, SCHs also receive an additional adjustment set at 7.1% above the Outpatient Prospective Payment System rate for outpatient services. Additionally, SCHs can qualify for adjustments due to decreases in inpatient volume, participation in the Hospital Value-Based Purchasing Program, and participation in the Hospital Readmissions Reduction Program. The Medical Center is reimbursed for outpatient cost reimbursable items at a tentative rate with final settlement determined after submission of the annual cost report by the Medical Center and audit thereof by the Medicare fiscal intermediary.
- Atrio Health Plans, Inc. is a for-profit Oregon health care service, of which CCC owns a minority interest (Note 3 and 12). Atrio Health Plans, Inc. provides Medicare Advantage Plans to residents primarily of Douglas, Jackson, Klamath, Marion, Josephine and Polk counties.
- *Medicaid* – Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates and outpatient services and emergency services will be reimbursed under the State's Prospective Payment System for Hospital Outpatient Department Services, using the Ambulatory Payment Classification Group methodology, and payments will be based on rates determined by State Actuarial Services. The Medical Center is reimbursed at a tentative rate with final settlement determined after submission of the annual cost report by the Medical Center and finalization of the cost report by the Oregon Division of Medical Assistance Programs.
- CCC is a local Medicaid claims administrator of which the Medical Center owns 42% (Note 3 and 12). The Medical Center is paid on an interim basis based upon prospectively determined rates. The Medical Center also participates in a risk pool arrangement that encourages cost containment.

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

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

	2023	2022
Other third-party payors	\$ 101,997,000	\$ 99,350,000
Medicare	139,494,000	126,920,000
Medicaid	66,041,000	59,486,000
Self-pay	<u>1,055,000</u>	<u>1,729,000</u>
 Total patient service revenue, net	 <u>\$ 308,587,000</u>	 <u>\$ 287,485,000</u>

Note 3 – Investments

Investments at September 30 include:

	2023	2022
Corporate bonds, held-to-maturity	\$ 24,701,000	\$ 36,697,000
Life insurance	130,475,000	126,888,000
Money market	5,613,000	1,440,000
Common stocks	22,263,000	20,225,000
Cascade Comprehensive Care, Inc.	7,872,000	8,660,000
Mutual funds	10,665,000	9,071,000
Southern Oregon Linen Services, Inc.	<u>588,000</u>	<u>579,000</u>
 \$ 202,177,000	 <u>\$ 203,560,000</u>	

The reconciliation between investments on the consolidated financial statements and the above table is as follows as of September 30:

	2023	2022
Investments	\$ 196,564,000	\$ 202,120,000
Assets limited as to use	5,613,000	1,440,000
 \$ 202,177,000	 <u>\$ 203,560,000</u>	

Southern Oregon Linen Service, Inc. – The Medical Center owns 12.7% of the common stock in Southern Oregon Linen Service (SOLS). SOLS was established in 1996 as a central cooperative laundry to service several regional hospitals. The Medical Center concluded that it could not exert influence over SOLS' operations and financial activities; therefore, the Medical Center is accounting for the investment on the cost method.

Cascade Comprehensive Care, Inc. – The Medical Center owns 42% of the common stock in CCC, which is accounted for using the equity method. CCC is a managed health care company that currently manages a Medicaid contract under the Oregon Health Plan. CCC handles quality assurance, utilization management, claims adjudication, pharmacy management, encounter reporting, financial and solvency reporting, physician and provider contracting, reinsurance/stoploss issues, risk model management etc. for the local community. The Medical Center concluded that it could not exert influence over CCC'S operations and financial activities; therefore, the Medical Center is accounting for the investment on the equity method.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

The following represents the unaudited summary financial information for CCC for the years ended September 30:

	2023 (unaudited)	2022 (unaudited)
Current assets	\$ 66,833,000	\$ 56,272,000
Noncurrent assets	<u>10,823,000</u>	<u>13,673,000</u>
 Total assets	 <u>\$ 77,656,000</u>	 <u>\$ 69,945,000</u>
 Current liabilities	 \$ 52,207,000	 \$ 40,438,000
Noncurrent liabilities	6,633,000	7,187,000
Equity	<u>18,816,000</u>	<u>22,320,000</u>
 Total liabilities and equity	 <u>\$ 77,656,000</u>	 <u>\$ 69,945,000</u>
 Operating revenue	 \$ 129,747,000	 \$ 129,770,000
Operating expenses	<u>130,330,000</u>	<u>132,419,000</u>
 Operating loss	 <u>\$ (583,000)</u>	 <u>\$ (2,649,000)</u>

Note 4 – Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Basis of fair value measurement

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Medical Center has the ability to access.

Level 2 – Inputs to the valuation methodology are quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2023 and 2022.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Corporate bonds, held-to-maturity – Investment securities that management has the positive intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts and therefore excluded from the fair value tables. With board approval, the Company decided to liquidate \$4,350,000 of corporate bonds that were previously considered Held to Maturity during 2023.

Life insurance – Valued at the estimated cash-surrender value of the policies. The carrying amount approximates fair value.

Mutual funds and money market funds – Valued at the net asset value of shares held by the Medical Center at year end using prices quoted by the relevant pricing agent.

Common stocks – Valued at the closing price reported on the active market on which the individual securities are traded.

Certificates of deposit – Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

The following tables disclose by level, the fair value hierarchy, of the Medical Center's assets at fair value at September 30, 2023:

	Fair Value Measurements			
	Total Fair Value	Level One	Level Two	Level Three
Common stock	\$ 22,263,000	\$ 22,263,000	\$ -	\$ -
Life insurance	130,475,000	-	130,475,000	-
Mutual funds	<u>10,665,000</u>	<u>10,665,000</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 163,403,000</u></u>	<u><u>\$ 32,928,000</u></u>	<u><u>\$ 130,475,000</u></u>	<u><u>\$ -</u></u>

Total investments held-to-maturity, valued at cost, and investments in other healthcare entities accounted for at cost or under the equity method of accounting as of September 30, 2023 were approximately \$33,161,000.

The following tables disclose by level, the fair value hierarchy, of the Medical Center's assets at fair value at September 30, 2022:

	Fair Value Measurements			
	Total Fair Value	Level One	Level Two	Level Three
Common stock	\$ 20,225,000	\$ 20,225,000	\$ -	\$ -
Life insurance	126,888,000	-	126,888,000	-
Mutual funds	<u>9,071,000</u>	<u>9,071,000</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 156,184,000</u></u>	<u><u>\$ 29,296,000</u></u>	<u><u>\$ 126,888,000</u></u>	<u><u>\$ -</u></u>

Total investments held-to-maturity, valued at cost, and investments in other healthcare entities accounted for at cost or under the equity method of accounting as of September 30, 2022 were \$45,937,000.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Note 5 – Property and Equipment

A summary of property and equipment at September 30 follows:

	<u>2023</u>	<u>2022</u>
Buildings and fixed equipment	\$ 194,575,000	\$ 190,281,000
Moveable equipment	95,102,000	89,671,000
Equipment under finance lease obligations	9,396,000	9,396,000
Land improvements	6,814,000	6,790,000
Land	5,284,000	5,284,000
Leasehold improvements	<u>343,000</u>	<u>343,000</u>
	311,514,000	301,765,000
Less: Accumulated depreciation and amortization	<u>(185,813,000)</u>	<u>(173,991,000)</u>
	125,701,000	127,774,000
Construction in progress	<u>14,348,000</u>	<u>9,002,000</u>
Property and equipment, net	<u><u>\$ 140,049,000</u></u>	<u><u>\$ 136,776,000</u></u>

Depreciation expense for the years ended September 30, 2023 and 2022 was \$11,186,000 and \$11,570,000, respectively. Amortization expense for the years ended September 30, 2023 and 2022 was \$927,000 and \$443,000, respectively. Accumulated amortization for equipment under finance lease obligations was \$5,681,000 and \$4,755,000 at September 30, 2023 and 2022, respectively.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Note 6 – Deferred Revenue

Plum Ridge Care Center

In 2001, Klamath County, Oregon deeded the Plum Ridge Care Center to the Klamath Falls Intercommunity Hospital Authority (the Authority). The Medical Center entered into a long-term lease agreement for a period of 89 years for the sum of \$1 per year. In addition, the Medical Center has the option of purchasing the property at any time for the sum of \$1. The Medical Center recognized the fair value of the lease at the time the agreement with the Authority was entered into. The Medical Center is amortizing the lease value over the life of the lease. The lease value of Plum Ridge Care Center at September 30, 2023 and 2022 was approximately \$955,000 and \$1,011,000, respectively, and is included in other assets in the consolidated balance sheets.

In 2001, the Medical Center subleased the Plum Ridge Care Center to Plum Ridge Care Community, LLC, an unrelated third party, on equivalent lease terms as to the Medical Center's lease with the Authority, except the Medical Center did not grant the right to purchase the property to Plum Ridge Care Community, LLC. The Medical Center recognized a liability to Plum Ridge Care Community, LLC, for the lease value of the remaining term of the lease. The revenue is being amortized over the lease term. The deferred rental revenue of Plum Ridge Care Center was approximately \$2,207,000 and \$2,240,000 at September 30, 2023 and 2022, respectively, and is included in other long-term liabilities in the consolidated balance sheets.

OHSU Building Lease

In 2021, the Medical Center signed an agreement with Oregon Health and Science University (OHSU) for \$5,000,000 to expand the Medical Center's campus by constructing a 4-story office building on the Sky Lakes Main Campus in Klamath Falls, Oregon. As a part of this agreement with OHSU, OHSU received an exclusive license and right to use and occupy a portion of the building for the life of the lease, 50 years. The Medical Center recognized a liability to OHSU for the lease value of the remaining term of the lease. The revenue is being amortized over the lease term. The deferred rental revenue of OHSU was approximately \$3,716,000 and \$3,796,000 at September 30, 2023 and 2022, and is included in other long-term liabilities in the consolidated balance sheets.

Note 7 – Leases

The Medical Center leases facilities and equipment under non-cancelable operating leases. In addition, the Medical Center has entered into finance lease agreements for a facility and equipment, which are secured by the facility and equipment. Certain operating lease agreements include renewals and/or purchase options set to expire at various dates, and include escalating payments. The Medical Center's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Sky Lakes Medical Center and Affiliates
Notes to Consolidated Financial Statements

The following table summarizes the Medical Center's leases at September 30:

	2023	2022
Right-of-use assets:		
Finance leases, net	\$ 4,164,000	\$ 4,641,000
Operating leases	<u>3,422,000</u>	-
Total right-of-use assets	<u><u>\$ 7,586,000</u></u>	<u><u>\$ 4,641,000</u></u>
Lease liabilities:		
Finance leases	\$ 5,616,000	\$ 6,072,000
Operating leases	<u>3,453,000</u>	-
Total lease liabilities	<u><u>\$ 9,069,000</u></u>	<u><u>\$ 6,072,000</u></u>

Finance lease right-of-use assets are included in property and equipment, net on the consolidated balances sheets, and are presented net of accumulated depreciation of \$5,682,000 and \$4,755,000 as of September 30, 2023 and 2022, respectively.

Lease cost consists of the following for the year ended September 30, 2023:

Finance lease cost:		
Amortization of right-of-use assets	\$ 477,000	
Interest on lease liabilities	399,000	
Operating lease cost:		
Lease expense	<u>497,000</u>	
Total lease cost	<u><u>\$ 1,373,000</u></u>	

Lease expense for operating leases under ASC 840 totaled \$1,070,000 for the year ended September 30, 2022.

Sky Lakes Medical Center and Affiliates
Notes to Consolidated Financial Statements

The future maturities of lease liabilities as of September 30, 2023, are as follows:

	<u>Finance Leases</u>	<u>Operating Leases</u>
2024	\$ 820,000	\$ 790,000
2025	749,000	814,000
2026	734,000	821,000
2027	734,000	747,000
2028	734,000	481,000
Thereafter	<u>4,793,000</u>	<u>101,000</u>
 Total lease payments	 8,564,000	 3,754,000
Amounts representing interest	<u>(2,948,000)</u>	<u>(301,000)</u>
Present value of minimum lease payments	5,616,000	3,453,000
Amount due within one year	<u>(709,000)</u>	<u>(413,000)</u>
Amount due after one year	<u><u>\$ 4,907,000</u></u>	<u><u>\$ 3,040,000</u></u>

The following table summarizes the lease terms and discount rates for the lease liabilities:

Weighted average remaining lease term:

Finance leases	11.96 years
Operating leases	4.47 years

Weighted average discount rate

Finance leases	6.87%
Operating leases	4.72%

The following table presents other information related to the operating and finance leases as of September 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flow from operating lease liabilities	\$ 466,000
Finance cash flows from finance lease liabilities	\$ 424,000
Right-of-use assets obtained in exchange for finance lease liabilities	\$ 4,641,000
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 3,843,000

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Note 8 – Long-Term Debt

Long term debt consisted of the following as of September 30:

	<u>2023</u>	<u>2022</u>
Series 2022 Bonds with an interest rate of 3.51% and mature in varying amounts through 2031.	\$ 10,105,000	\$ -
Series 2016 Bonds with interest rates from 2% to 5% and mature in varying amounts through 2046, net of premiums of \$4,426,178 and \$4,618,620 at September 30, 2023 and 2022, respectively.	49,446,000	51,274,000
Series 2012 Bonds with interest rates from 3.5% to 5% and mature in varying amounts through 2031, net of premiums of \$668,469 at September 30, 2022. Bond was paid in full during the year ended September 30, 2023.	- 7,249,000	
Bank of America Loan with a fixed interest rate of 3.9%, due and payable July 2025.	2,166,000	3,284,000
Bank of America Loan with a fixed interest rate of 2.7%, due and payable September 2026.	2,258,000	2,971,000
Bank of America Loan with a fixed interest rate of 3.7%, due and payable May 2029.	<u>2,793,000</u>	<u>1,339,000</u>
Total long-term debt	66,768,000	66,117,000
Less deferred financing costs, premiums, and discounts	(903,000)	(899,000)
Less current portion	<u>(5,187,000)</u>	<u>(4,442,000)</u>
Long-term debt, net of deferred financing costs and current portion	<u>\$ 60,678,000</u>	<u>\$ 60,776,000</u>

2022 Bonds – In 2022, the Medical Center issued \$11,000,000 in Series 2022 Bonds to defease the remaining 2012 Series Bonds, to pay for capital expenditures, to fund a Reserve Fund for the 2022 Bonds, and to pay the costs of issuing the 2022 Bonds.

With the 2012 Series being legally defeased, the Medical Center will no longer be reporting any liabilities for that bond issue following the recognition of the new Series 2022 Bonds in the consolidated financial statements of Sky Lakes Medical Center. There is no significant change in terms or conditions with the issuance of the new bonds compared to those defined by earlier bond issues. The 2022 Bonds are secured by a Deed of Trust on a portion of the Medical Center campus, including the main hospital facility.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

2016 Bonds – In 2016, the Authority issued \$53,325,000 in Series 2016 Bonds to defease the remaining 2006 Bonds, to pay or to reimburse the Medical Center for capital expenditures, to fund a Reserve Fund for the 2016 Bonds, and to pay costs of issuing the 2016 Bonds. The issuance was structured as a legal defeasance. Adequate amounts of the 2016 Bond issuance were used to purchase U.S. Treasury Securities to fully pay the debt service requirements of the 2006 Bonds. The securities have been placed in an escrow account and the Escrow Agent for the account will pay the debt service requirements as they become due. As the debt for the 2006 Series has been legally defeased, the Medical Center is no longer required to report the liability in the consolidated balance sheets.

The 2016 Bonds are secured by a Deed of Trust on a portion of the Medical Center campus, including the main hospital facility.

2012 Bonds – In 2013, the Authority issued \$17,000,000 in Series 2012 Bonds to defease the remaining 2002 Bonds, to pay or to reimburse the Medical Center for the payment of new equipment, to fund a Reserve Fund for the 2012 Bonds, and to pay costs of issuing the 2012 Bonds. The issuance was structured as a legal defeasance. Adequate amounts of the 2012 Bond issuance were used to purchase U.S. Treasury Securities to fully pay the debt service requirements of the 2002 Bonds. The securities have been placed in an escrow account and the Escrow Agent for the account will pay the debt service requirements as they become due. As the debt for the 2002 Series has been legally defeased, the Medical Center is no longer required to report the liability in the consolidated balance sheets.

The 2012 Bonds are secured by a Deed of Trust on a portion of the Medical Center campus, including the main hospital facility. They are further secured by a Reserve Fund, created by the terms of the Bond Indenture to be held by the Bond Trustee to prevent a payment default on the Bonds. The Reserve Fund is required to maintain a balance equal to the lesser of the maximum annual debt service, 125% of the average annual debt service, or 10% of the bond proceeds. They are also secured by a pledge of the gross revenues.

2018 Loans – In 2018, the Medical Center entered into an Equipment Security Note with the Bank of America for \$7,500,000 for various medical equipment and tenant improvements.

2019 Loans – In 2019, the Medical Center entered into an Equipment Security Note with the Bank of America for \$5,000,000 for various medical equipment and tenant improvements.

2022 Loans – In 2022, the Medical Center entered into an Equipment Security Note with the Bank of America for \$3,371,000 for various medical equipment and tenant improvements. As of September 30, 2022, the Medical Center had only drawn down \$1,339,000 of the note.

The Medical Center must satisfy certain covenants as long as the bonds are outstanding. At September 30, 2023, management is not aware of any violation of the covenants.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Scheduled future principal payments for all long-term debt, exclusive of unamortized premiums of \$5,094,000, for the years ending September 30 are as follows:

2024	\$ 5,187,000
2025	5,055,000
2026	4,194,000
2027	3,559,000
2028	3,698,000
Thereafter	<u>39,981,000</u>
	 <u>\$ 61,674,000</u>

Deferred financing costs incurred and bond premium received in connection with the issuance of the refunding gross revenue bonds are being amortized over the term of the bond issue by the straight-line method, which approximates the effective interest rate method.

Note 9 – COVID Funding

Provider Relief Funds (PRF) – On March 27, 2020, the United States Congress passed the Coronavirus Aid, Relief, and Economic Securities (CARES) Act. The CARES Act included provisions for health care under the Provider Relief Fund. During April and May 2020 and January 2021, the Medical Center received funds under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services (HHS) of \$41,641,000. The Medical Center was required to and did timely sign attestations agreeing to the terms and conditions of payment. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are to be used for healthcare-related expenses or lost revenue attributable to COVID-19, limitations of out of pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. It is noted that anti-fraud monitoring and auditing will be performed by HHS and the Office of the Inspector General. The Medical Center's management is currently determining its ability to comply with these terms and conditions. For the years ended September 30, 2023 and 2022, the Medical Center recognized Provider Relief Funds of \$0 and \$10,593,000, respectively, as other revenue on the consolidated statements of operations.

Medicare advance payments – The passage of the CARES Act amended the existing CMS Accelerated Payments Program to provide additional benefits and flexibilities, including extended repayment timeframes, to the subset of providers specifically referenced in the CARES Act, including inpatient hospitals, children's hospitals, certain cancer hospitals, and critical access hospitals. During April 2020, the Medical Center received funds under the Accelerated Payments Program, administered by Noridian Medicare of \$32,442,000. As of September 30, 2021, the Medical Center recorded a liability on the consolidated balance sheet of \$25,729,000 for funds to be returned. These funds were returned in full in August 2022.

Federal Emergency Management Agency (FEMA) – Under the public health emergency, the Medical Center is eligible for reimbursement of certain expenditures from FEMA. During the year ended September 30, 2023, \$5,993,000 was obligated for reimbursement by FEMA. The obligated amount is recorded as other revenue in the consolidated statement of operations and the outstanding balance of \$4,800,000 as of September 30, 2023, is included in other receivables in the consolidated balance sheet. Subsequent to September 30, 2023 there were additional amounts obligated for reimbursement.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Note 10 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30:

	<u>2023</u>	<u>2022</u>
Cancer fund	\$ 3,964,000	\$ 3,283,000
Cares fund	1,395,000	1,276,000
Other funds	<u>4,190,000</u>	<u>3,351,000</u>
 Total net assets with donor restrictions	 <u>\$ 9,549,000</u>	 <u>\$ 7,910,000</u>

Note 11 – Commitments and Contingencies

Operating leases

Prior to adoption of ASC 842 on October 1, 2022, the Medical Center followed ASC 840 for accounting for lease arrangement. Minimum future payments on non-cancelable leases as of September 30, 2022 are:

2023	\$ 317,000
2024	288,000
2025	271,000
2026	284,000
2027	<u>297,000</u>
 <u>\$ 1,457,000</u>	

Lessor leases – The Medical Center is the lessor of the office space to various entities under operating leases expiring in various years through September 2057.

Following is a summary of property on or held for lease at September 30:

	<u>2023</u>	<u>2022</u>
Buildings and improvements	\$ 17,530,000	\$ 17,215,000
Less accumulated depreciation	<u>(7,791,000)</u>	<u>(7,630,000)</u>
 <u>\$ 9,739,000</u>		<u>\$ 9,585,000</u>

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Minimum future rentals to be received on non-cancelable leases as of September 30 are:

2024	\$ 115,000
2025	76,000
2026	36,000
2027	6,000
2028	<u>6,000</u>
	 <u>\$ 239,000</u>

Litigation

The Medical Center is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Medical Center's future financial position or results from operations.

Note 12 – Related-Party Transactions

The following is a summary of transactions between the Medical Center and related parties:

Atrio Health Plans – The Medical Center received \$20,364,000 and \$24,133,000 in Medicare reimbursement from Atrio Health Plans, Inc. for the years ended September 30, 2023 and 2022, respectively. As of September 30, 2023 and 2022, the Medical Center has accounts receivable from Atrio Health Plans, Inc. of \$2,249,000 and \$2,130,000, respectively.

Southern Oregon Linen Services – The Medical Center purchased laundry services of approximately \$573,000 and \$506,000 from Southern Oregon Linen Services for the years ended September 30, 2023 and 2022, respectively. As of September 30, 2023 and 2022, the Medical Center has a payable to Southern Oregon Linen Services of \$47,000 and \$47,000, respectively.

Cascade Comprehensive Care, Inc. – The Medical Center received approximately \$44,407,000 and \$44,403,000 in Medicaid reimbursements from for the years ended September 30, 2023 and 2022, respectively. As of September 30, 2023 and 2022, the Medical Center has account receivable from Cascade Comprehensive Care, Inc. of \$1,676,000 and \$1,506,000, respectively, and a risk/withhold receivable of \$7,905,000 and \$7,052,000, respectively.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Note 13 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated balance sheet date, comprise the following as of September 30:

	2023	2022
Cash and cash equivalents	\$ 19,509,000	\$ 18,447,000
Patient accounts receivable, net	34,976,000	35,727,000
Other receivables	10,965,000	5,997,000
Risk pool withhold receivable	<u>8,240,000</u>	<u>8,977,000</u>
 Total	 <u>\$ 73,690,000</u>	 <u>\$ 69,148,000</u>

The Medical Center has established an operating reserve and reviews its funding level on an ongoing basis to ensure it is adequate. The Medical Center invests cash in excess of daily requirements in U.S. government securities and other short-term investments, and money market funds.

Note 14 – Functional Expenses

The Medical Center provides general health care services to residents within its geographic location. Expenses related to providing these services for the Medical Center for the year ended September 30, 2023 are as follows:

	Program Activities	Supporting Activities		Total Expenses
	Healthcare Services	Management and General		
Salaries and benefits	\$ 132,991,000	\$ 21,087,000	\$ 154,078,000	
Purchased services	49,092,000	2,744,000	51,836,000	
Drugs	33,822,000	-	33,822,000	
Supplies	18,063,000	75,000	18,138,000	
Building and maintenance	4,960,000	13,772,000	18,732,000	
Depreciation and amortization	5,368,000	6,745,000	12,113,000	
Provider tax	16,004,000	-	16,004,000	
Physician fees	10,628,000	33,000	10,661,000	
Other	1,417,000	2,133,000	3,550,000	
Interest expense	10,000	2,840,000	2,850,000	
Insurance	1,153,000	1,949,000	3,102,000	
Minor equipment	867,000	235,000	1,102,000	
Professional fees	151,000	1,286,000	1,437,000	
Rentals and lease expense	<u>405,000</u>	<u>202,000</u>	<u>607,000</u>	
 Total	 <u>\$ 274,931,000</u>	 <u>\$ 53,101,000</u>	 <u>\$ 328,032,000</u>	

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

Expenses related to providing these services for the Medical Center for the year ended September 30, 2022 are as follows:

	<u>Program Activities</u>	<u>Supporting Activities</u>		Total Expenses
	Healthcare Services	Management and General		
Salaries and benefits	\$ 122,390,000	\$ 17,397,000	\$ 139,787,000	
Purchased services	50,249,000	2,570,000	52,819,000	
Drugs	26,248,000	-	26,248,000	
Supplies	20,309,000	-	20,309,000	
Building and maintenance	4,127,000	12,687,000	16,814,000	
Depreciation and amortization	5,080,000	6,933,000	12,013,000	
Provider tax	15,126,000	-	15,126,000	
Physician fees	10,241,000	12,000	10,253,000	
Other	3,014,000	1,014,000	4,028,000	
Interest expense	11,000	2,747,000	2,758,000	
Insurance	790,000	998,000	1,788,000	
Minor equipment	758,000	236,000	994,000	
Professional fees	89,000	850,000	939,000	
Rentals and lease expense	854,000	216,000	1,070,000	
 Total	 \$ 259,286,000	 \$ 45,660,000	 \$ 304,946,000	

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Medical Center allocates expenses on the basis of estimates of time and effort.

Note 15 – Retirement Plans

401(k) – Retirement Plan

WPS established the West Physician Services 401(k) Retirement Plan, which is a qualified retirement plan under Section 401(k) of the Internal Revenue Code. Effective January 1, 2019, the Plan was modified to include the Medical Center employees. The Medical Center matched one-third of a percent per 1% of the employee's contribution up to a maximum Medical Center contribution of 1%, except for WPS and supplemental employees. Effective October 1, 2019, the Medical Center began making bi-weekly required contributions of 5% of an employee's eligible compensation to the plan each plan year. The Medical Center made non-discretionary matching employer contributions of \$6,328,000 and \$5,308,000 for the years ended September 30, 2023 and 2022, respectively.

Sky Lakes Medical Center and Affiliates

Notes to Consolidated Financial Statements

409(a) – Retirement Plan

WPS established the West Physician Services Nonqualified Retirement Plan, for the purposes of providing nonqualified retirement benefits to a select group of its employees. The Medical Center is required to contribute 5% of an employee's compensation to the plan each plan year. In addition, the plan permits eligible employees to defer a portion of their compensation. The participant balances are distributable in cash after retirement or termination of employment. The Medical Center contributed \$213,000 and \$190,000 to the plan on behalf of employees for the years ended September 30, 2023 and 2022, respectively.

457(b) – Deferred Compensation Plan

The Medical Center established the Sky Lakes Medical Center 457(b) Plan. The Plan is a 457(b) qualified deferred compensation plan that permits eligible employees to defer a portion of their compensation. The participant balances are distributable in cash after retirement, unforeseeable emergencies, or termination of employment. Employer contributions to the plan approximated \$58,000 and \$70,000 for the years ended September 30, 2023 and 2022, respectively. The Medical Center may hold the participant balances in cash or invest it in assets selected by the Plan Administrator. The Plan Administrator has elected to invest the participant balances in mutual funds.

Supplementary Information (unaudited)

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Sky Lakes Medical Center and Affiliates
Consolidating Balance Sheet (unaudited)
September 30, 2023

ASSETS								Eliminating Entries	Consolidated
	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Klamath Medical Business Center	KW Campus	Total				
CURRENT ASSETS									
Cash and cash equivalents	\$ 17,637,000	\$ 984,000	\$ 876,000	\$ 12,000	\$ 19,509,000	\$ -	\$ 19,509,000		
Patient accounts receivable, net	34,976,000	-	-	-	34,976,000	-	34,976,000		
Other receivables	14,668,000	-	-	-	14,668,000	(3,703,000)	10,965,000		
Risk pool withhold receivable	8,240,000	-	-	-	8,240,000	-	8,240,000		
Supplies inventory	9,554,000	-	-	-	9,554,000	-	9,554,000		
Prepaid expenses	7,433,000	-	-	-	7,433,000	-	7,433,000		
Other current assets	-	750,000	-	-	750,000	-	750,000		
Total current assets	<u>92,508,000</u>	<u>1,734,000</u>	<u>876,000</u>	<u>12,000</u>	<u>95,130,000</u>	<u>(3,703,000)</u>	<u>91,427,000</u>		
ASSETS LIMITED AS TO USE	5,613,000	-	-	-	5,613,000	-	5,613,000		
PROPERTY AND EQUIPMENT, net	137,783,000	-	626,000	1,640,000	140,049,000	-	140,049,000		
OPERATING LEASE RIGHT-OF-USE ASSETS	3,422,000	-	-	-	3,422,000	-	3,422,000		
INVESTMENTS	175,905,000	22,475,000	-	-	198,380,000	(1,816,000)	196,564,000		
OTHER ASSETS	<u>955,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>955,000</u>	<u>-</u>	<u>955,000</u>		
Total assets	<u><u>\$ 416,186,000</u></u>	<u><u>\$ 24,209,000</u></u>	<u><u>\$ 1,502,000</u></u>	<u><u>\$ 1,652,000</u></u>	<u><u>\$ 443,549,000</u></u>	<u><u>\$ (5,519,000)</u></u>	<u><u>\$ 438,030,000</u></u>		

Sky Lakes Medical Center and Affiliates
Consolidating Balance Sheet (unaudited)
September 30, 2023

LIABILITIES AND NET ASSETS							
	<u>Sky Lakes Medical Center</u>	<u>Sky Lakes Medical Center Foundation</u>	<u>Klamath Medical Business Center</u>	<u>KW Campus</u>	<u>Total</u>	<u>Eliminating Entries</u>	<u>Consolidated</u>
CURRENT LIABILITIES							
Accounts payable	\$ 13,458,000	\$ 255,000	\$ -	\$ 13,713,000	\$ -	\$ 13,713,000	
Accrued payroll	9,101,000	-	-	9,101,000	-	9,101,000	
Accrued compensated absences	7,137,000	-	-	7,137,000	-	7,137,000	
Accrued interest payable	246,000	-	-	246,000	-	246,000	
Other accrued expenses	18,749,000	-	-	18,749,000	(3,703,000)	15,046,000	
Estimated third-party payor settlements	735,000	-	-	735,000	-	735,000	
Long-term debt, current portion	5,187,000	-	-	5,187,000	-	5,187,000	
Operating lease obligations, current portion	413,000	-	-	413,000	-	413,000	
Finance lease obligations, current portion	709,000	-	-	709,000	-	709,000	
Total current liabilities	<u>55,735,000</u>	<u>255,000</u>	<u>-</u>	<u>55,990,000</u>	<u>(3,703,000)</u>	<u>52,287,000</u>	
LONG-TERM LIABILITIES							
Long-term debt, net of current portion, deferred financing costs, premium, and discount	60,678,000	-	-	60,678,000	-	60,678,000	
Operating lease obligations, net of current portion	3,040,000	-	-	3,040,000	-	3,040,000	
Finance lease obligations, net of current portion	4,907,000	-	-	4,907,000	-	4,907,000	
Other long-term liabilities	10,835,000	-	-	10,835,000	-	10,835,000	
Total long-term liabilities	<u>79,460,000</u>	<u>-</u>	<u>-</u>	<u>79,460,000</u>	<u>-</u>	<u>79,460,000</u>	
Total liabilities	<u>135,195,000</u>	<u>255,000</u>	<u>-</u>	<u>135,450,000</u>	<u>(3,703,000)</u>	<u>131,747,000</u>	
NET ASSETS							
Without donor restrictions – Sky Lakes Medical Center	280,991,000	14,405,000	1,502,000	1,652,000	298,550,000	(3,393,000)	295,157,000
Without donor restrictions – non-controlling interest	-	-	-	-	-	1,577,000	1,577,000
With donor restrictions	-	9,549,000	-	-	9,549,000	-	9,549,000
Total net assets	<u>280,991,000</u>	<u>23,954,000</u>	<u>1,502,000</u>	<u>1,652,000</u>	<u>308,099,000</u>	<u>(1,816,000)</u>	<u>306,283,000</u>
Total liabilities and net assets	<u><u>\$ 416,186,000</u></u>	<u><u>\$ 24,209,000</u></u>	<u><u>\$ 1,502,000</u></u>	<u><u>\$ 1,652,000</u></u>	<u><u>\$ 443,549,000</u></u>	<u><u>\$ (5,519,000)</u></u>	<u><u>\$ 438,030,000</u></u>

Sky Lakes Medical Center and Affiliates
Consolidating Statement of Operations (unaudited)
Year Ended September 30, 2023

	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Klamath Medical Business Center	KW Campus	Total	Eliminating Entries	Consolidated
REVENUES							
Patient service revenue, net	\$ 308,587,000	\$ -	\$ -	\$ -	\$ 308,587,000	\$ -	\$ 308,587,000
Other revenue	16,744,000	-	285,000	-	17,029,000	(869,000)	16,160,000
Total revenues	325,331,000	-	285,000	-	325,616,000	(869,000)	324,747,000
EXPENSES							
Salaries and benefits	153,923,000	155,000	-	-	154,078,000	-	154,078,000
Purchased services	51,840,000	-	5,000	-	51,845,000	(9,000)	51,836,000
Drugs	33,822,000	-	-	-	33,822,000	-	33,822,000
Supplies	18,786,000	-	-	-	18,786,000	(648,000)	18,138,000
Building and maintenance	18,598,000	-	147,000	-	18,745,000	(13,000)	18,732,000
Depreciation and amortization	12,061,000	-	52,000	-	12,113,000	-	12,113,000
Provider tax	16,004,000	-	-	-	16,004,000	-	16,004,000
Physician fees	10,666,000	-	-	-	10,666,000	(5,000)	10,661,000
Other	3,535,000	-	22,000	1,000	3,558,000	(8,000)	3,550,000
Interest expense	2,850,000	-	-	-	2,850,000	-	2,850,000
Insurance	3,092,000	-	10,000	-	3,102,000	-	3,102,000
Minor equipment	1,102,000	-	-	-	1,102,000	-	1,102,000
Professional fees	1,435,000	-	9,000	1,000	1,445,000	(8,000)	1,437,000
Rentals and lease expense	607,000	-	-	-	607,000	-	607,000
Total expenses	328,321,000	155,000	245,000	2,000	328,723,000	(691,000)	328,032,000
OPERATING (LOSS) INCOME	(2,990,000)	(155,000)	40,000	(2,000)	(3,107,000)	(178,000)	(3,285,000)
OTHER INCOME (EXPENSE)							
Investment income	1,850,000	693,000	-	-	2,543,000	(47,000)	2,496,000
Change in unrealized gains and loss on investment securities	-	1,927,000	-	-	1,927,000	-	1,927,000
Contributions	267,000	25,000	-	50,000	342,000	(135,000)	207,000
Net assets released from restriction	-	876,000	-	-	876,000	-	876,000
Other non-operating income (expense)	(127,000)	(2,032,000)	-	-	(2,159,000)	259,000	(1,900,000)
Total other income, net	1,990,000	1,489,000	-	50,000	3,529,000	77,000	3,606,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$ (1,000,000)	\$ 1,334,000	\$ 40,000	\$ 48,000	\$ 422,000	\$ (101,000)	\$ 321,000

Sky Lakes Medical Center and Affiliates
Consolidating Statement of Changes in Net Assets (unaudited)
Year Ended September 30, 2023

	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Klamath Medical Business Center	KW Campus	Total	Eliminating Entries	Consolidated
NET ASSETS WITHOUT DONOR RESTRICTIONS							
Excess (deficiency) of revenues over expenses	\$ (1,000,000)	\$ 1,334,000	\$ 40,000	\$ 48,000	\$ 422,000	\$ (101,000)	\$ 321,000
Contributions	-	-	13,000	-	13,000	-	13,000
Net change in unrealized gains and losses on life insurance	1,711,000	-	-	-	1,711,000	-	1,711,000
Increase in net assets without donor restrictions	711,000	1,334,000	53,000	48,000	2,146,000	(101,000)	2,045,000
NET ASSETS WITH DONOR RESTRICTIONS							
Contributions	-	1,186,000	-	-	1,186,000	-	1,186,000
Net change in unrealized gains and losses	-	975,000	-	-	975,000	-	975,000
Investment income	-	354,000	-	-	354,000	-	354,000
Net assets released from restrictions	-	(876,000)	-	-	(876,000)	-	(876,000)
Increase in net assets with donor restrictions	-	1,639,000	-	-	1,639,000	-	1,639,000
CHANGE IN NET ASSETS	711,000	2,973,000	53,000	48,000	3,785,000	(101,000)	3,684,000
NET ASSETS, beginning of year	280,280,000	20,981,000	1,449,000	1,604,000	304,314,000	(1,715,000)	302,599,000
NET ASSETS, end of year	<u>\$ 280,991,000</u>	<u>\$ 23,954,000</u>	<u>\$ 1,502,000</u>	<u>\$ 1,652,000</u>	<u>\$ 308,099,000</u>	<u>\$ (1,816,000)</u>	<u>\$ 306,283,000</u>

Sky Lakes Medical Center and Affiliates
Obligated Group – Combining Balance Sheet (unaudited)
September 30, 2023

ASSETS						
	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Total	Eliminating Entries	Total Obligated Group	
CURRENT ASSETS						
Cash and cash equivalents	\$ 17,637,000	\$ 984,000	\$ 18,621,000	\$ -	\$ 18,621,000	
Patient accounts receivable, net	34,976,000	-	34,976,000	-	34,976,000	
Other receivables	14,668,000	-	14,668,000	(3,703,000)	10,965,000	
Risk pool withhold receivable	8,240,000	-	8,240,000	-	8,240,000	
Supplies inventory	9,554,000	-	9,554,000	-	9,554,000	
Prepaid expenses	7,433,000	-	7,433,000	-	7,433,000	
Other current assets	-	750,000	750,000	-	750,000	
 Total current assets	 92,508,000	 1,734,000	 94,242,000	 (3,703,000)	 90,539,000	
ASSETS LIMITED AS TO USE	5,613,000	-	5,613,000	-	5,613,000	
PROPERTY AND EQUIPMENT, net	137,783,000	-	137,783,000	-	137,783,000	
OPERATING LEASE RIGHT-OF-USE ASSETS	3,422,000	-	3,422,000	-	3,422,000	
INVESTMENTS	175,905,000	22,475,000	198,380,000	(1,816,000)	196,564,000	
OTHER ASSETS	955,000	-	955,000	-	955,000	
 Total assets	 \$ 416,186,000	 \$ 24,209,000	 \$ 440,395,000	 \$ (5,519,000)	 \$ 434,876,000	

Sky Lakes Medical Center and Affiliates
Obligated Group – Combining Balance Sheet (unaudited)
September 30, 2023

LIABILITIES AND NET ASSETS

	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Total	Eliminating Entries	Total Obligated Group
CURRENT LIABILITIES					
Accounts payable	\$ 13,458,000	\$ 255,000	\$ 13,713,000	\$ -	\$ 13,713,000
Accrued payroll	9,101,000	-	9,101,000	-	9,101,000
Accrued compensated absences	7,137,000	-	7,137,000	-	7,137,000
Accrued interest payable	246,000	-	246,000	-	246,000
Other accrued expenses	18,749,000	-	18,749,000	(3,703,000)	15,046,000
Estimated third-party payor settlements	735,000	-	735,000	-	735,000
Long-term debt, current portion	5,187,000	-	5,187,000	-	5,187,000
Operating lease obligations, current portion	413,000	-	413,000	-	413,000
Finance lease obligations, current portion	709,000	-	709,000	-	709,000
 Total current liabilities	 55,735,000	 255,000	 55,990,000	 (3,703,000)	 52,287,000
LONG-TERM LIABILITIES					
Long-term debt, net of current portion, deferred financing costs, premium, and discount	60,678,000	-	60,678,000	-	60,678,000
Operating lease obligations, net of current portion	3,040,000	-	3,040,000	-	3,040,000
Finance lease obligations, net of current portion	4,907,000	-	4,907,000	-	4,907,000
Other long-term liabilities	10,835,000	-	10,835,000	-	10,835,000
 Total long-term liabilities	 79,460,000	 -	 79,460,000	 -	 79,460,000
 Total liabilities	 135,195,000	 255,000	 135,450,000	 (3,703,000)	 131,747,000
NET ASSETS					
Without donor restrictions – Sky Lakes Medical Center	280,991,000	14,405,000	295,396,000	(1,816,000)	293,580,000
With donor restrictions	-	9,549,000	9,549,000	-	9,549,000
 Total net assets	 280,991,000	 23,954,000	 304,945,000	 (1,816,000)	 303,129,000
 Total liabilities and net assets	 \$ 416,186,000	 \$ 24,209,000	 \$ 440,395,000	 \$ (5,519,000)	 \$ 434,876,000

Sky Lakes Medical Center and Affiliates
Obligated Group – Combining Statement of Operations (unaudited)
Year Ended September 30, 2023

	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Total	Eliminating Entries	Total Obligated Group
REVENUES					
Patient service revenue, net	\$ 308,587,000	\$ -	\$ 308,587,000	\$ -	\$ 308,587,000
Other revenue	16,744,000	-	16,744,000	(869,000)	15,875,000
Total revenues	325,331,000	-	325,331,000	(869,000)	324,462,000
EXPENSES					
Salaries and benefits	153,923,000	155,000	154,078,000	-	154,078,000
Purchased services	51,840,000	-	51,840,000	(9,000)	51,831,000
Drugs	33,822,000	-	33,822,000	-	33,822,000
Supplies	18,786,000	-	18,786,000	(648,000)	18,138,000
Building and maintenance	18,598,000	-	18,598,000	(13,000)	18,585,000
Depreciation and amortization	12,061,000	-	12,061,000	-	12,061,000
Provider tax	16,004,000	-	16,004,000	-	16,004,000
Physician fees	10,666,000	-	10,666,000	(5,000)	10,661,000
Other	3,535,000	-	3,535,000	(8,000)	3,527,000
Interest expense	2,850,000	-	2,850,000	-	2,850,000
Insurance	3,092,000	-	3,092,000	-	3,092,000
Minor equipment	1,102,000	-	1,102,000	-	1,102,000
Professional fees	1,435,000	-	1,435,000	(8,000)	1,427,000
Rentals and lease expense	607,000	-	607,000	-	607,000
Total expenses	328,321,000	155,000	328,476,000	(691,000)	327,785,000
OPERATING LOSS	(2,990,000)	(155,000)	(3,145,000)	(178,000)	(3,323,000)
OTHER INCOME (EXPENSE)					
Investment income	1,850,000	693,000	2,543,000	(47,000)	2,496,000
Change in unrealized gains and losses on investment securities	-	1,927,000	1,927,000	-	1,927,000
Contributions	267,000	25,000	292,000	(135,000)	157,000
Net assets released from restriction	-	876,000	876,000	-	876,000
Other non-operating income (expense)	(127,000)	(2,032,000)	(2,159,000)	259,000	(1,900,000)
Total other income, net	1,990,000	1,489,000	3,479,000	77,000	3,556,000
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ (1,000,000)	\$ 1,334,000	\$ 334,000	\$ (101,000)	\$ 233,000

Sky Lakes Medical Center and Affiliates
Obligated Group – Combining Statement of Changes in Net Assets (unaudited)
Year Ended September 30, 2023

	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Total	Eliminating Entries	Total Obligated Group
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Excess (deficiency) of revenues over expenses	\$ (1,000,000)	\$ 1,334,000	\$ 334,000	\$ (101,000)	\$ 233,000
Net change in unrealized gains and losses on life insurance	1,711,000	-	1,711,000	-	1,711,000
Increase in net assets without donor restrictions	711,000	1,334,000	2,045,000	(101,000)	1,944,000
NET ASSETS WITH DONOR RESTRICTIONS					
Contributions	-	1,186,000	1,186,000	-	1,186,000
Net change in unrealized gains and losses	-	975,000	975,000	-	975,000
Investment income	-	354,000	354,000	-	354,000
Net assets released from restrictions	-	(876,000)	(876,000)	-	(876,000)
Increase in net assets with donor restrictions	-	1,639,000	1,639,000	-	1,639,000
CHANGE IN NET ASSETS					
	711,000	2,973,000	3,684,000	(101,000)	3,583,000
NET ASSETS, beginning of year	280,280,000	20,981,000	301,261,000	(1,715,000)	299,546,000
NET ASSETS, end of year	<u>\$ 280,991,000</u>	<u>\$ 23,954,000</u>	<u>\$ 304,945,000</u>	<u>\$ (1,816,000)</u>	<u>\$ 303,129,000</u>



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