



## **SALEM HEALTH HOSPITALS AND CLINICS**

Consolidated Financial Statements and Supplemental Schedules

June 30, 2024 and 2023

(With Independent Auditors' Report Thereon)

## SALEM HEALTH HOSPITALS AND CLINICS

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KPMG LLP  
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## **Independent Auditors' Report**

The Board of Trustees  
Salem Health Hospitals and Clinics:

### *Opinion*

We have audited the consolidated financial statements of Salem Health Hospitals and Clinics and its subsidiaries (the Corporation), which comprise the consolidated balance sheets as of June 30, 2024 and 2023, 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 financial position of the Corporation as of June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

### *Basis for Opinion*

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

### *Responsibilities of Management for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 Corporation's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

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



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Corporation'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 Corporation'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 supplemental information included in the consolidating schedule of balance sheet information and consolidating schedule of operations information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The lean initiatives footnote included in note 15 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. such information has not been subject to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**KPMG LLP**

Portland, Oregon  
October 4, 2024

# SALEM HEALTH HOSPITALS AND CLINICS

## Consolidated Balance Sheets

June 30, 2024 and 2023

(In thousands)

<b>Assets</b>	<b>2024</b>	<b>2023</b>
Current assets:		
Cash and cash equivalents	\$ 24,643	44,092
Patient accounts receivable, net	167,330	132,812
Other receivables	37,543	33,439
Supplies inventory	11,844	10,552
Prepaid expenses and other	13,335	15,602
Total current assets	254,695	236,497
Investments	975,973	878,862
Property and equipment, net	734,630	717,705
Rental and other property held for future development, net of accumulated depreciation of \$5,245 in 2024 and \$5,718 in 2023	44,392	38,876
Investments in health related entities	—	28,994
Other noncurrent assets	5,627	8,302
Goodwill	57,790	15,023
Total assets	\$ 2,073,107	1,924,259
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 64,203	67,053
Accrued liabilities:		
Payroll, payroll taxes, and withholdings	36,859	21,245
Paid time off	34,984	29,526
Other	19,519	19,067
Estimated third-party payor settlements, net	14,675	11,798
Current portion of long-term debt	13,079	12,599
Current portion of estimated professional liability	2,579	2,399
Total current liabilities	185,898	163,687
Long-term debt, net of current portion	459,187	472,222
Other long-term liabilities	19,655	9,670
Estimated professional liability, net of current portion	11,075	10,958
Total liabilities	675,815	656,537
Net assets:		
Without donor restrictions	1,390,175	1,257,519
With donor restrictions	7,117	10,203
Total net assets	1,397,292	1,267,722
Total liabilities and net assets	\$ 2,073,107	1,924,259

See accompanying notes to consolidated financial statements.

# SALEM HEALTH HOSPITALS AND CLINICS

## Consolidated Statements of Operations

Years ended June 30, 2024 and 2023

(In thousands)

	<b>2024</b>	<b>2023</b>
Operating revenue:		
Patient service revenue	\$ 1,179,933	1,027,399
Other revenue	55,661	48,927
Net assets released from donor restriction used for operations	400	317
Total operating revenue	<u>1,235,994</u>	<u>1,076,643</u>
Operating expenses:		
Labor and benefits	791,231	695,736
Medical and other supplies	154,352	145,400
Purchased services and other	158,854	145,012
Depreciation	55,315	53,449
Professional fees	43,446	45,181
Interest and amortization	17,014	17,383
Total operating expenses	<u>1,220,212</u>	<u>1,102,161</u>
Excess (deficit) of revenue over expenses from operations	<u>15,782</u>	<u>(25,518)</u>
Other income (expense):		
Investment income (loss), net	117,806	69,986
(Loss) gain on disposal of property and equipment	(2,148)	(171)
Other, net	(2,708)	(6,481)
Total other income (expense)	<u>112,950</u>	<u>63,334</u>
Excess (deficit) of revenue over expenses	128,732	37,816
Change in net unrealized gain or (loss) on fixed income investments	224	(161)
Change in postretirement benefit obligation	—	(2,659)
Net assets released from restriction used for property and equipment	3,700	—
Change in net assets without donor restrictions	<u>\$ 132,656</u>	<u>34,996</u>

See accompanying notes to consolidated financial statements.

# SALEM HEALTH HOSPITALS AND CLINICS

## Consolidated Statements of Changes in Net Assets

Years ended June 30, 2024 and 2023

(In thousands)

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Net assets at June 30, 2022	\$ 1,222,523	9,653	1,232,176
Excess of revenue over expenses	37,816	—	37,816
Change in net unrealized gain or loss on fixed income investments	(161)	—	(161)
Change in postretirement benefit obligation	(2,659)	—	(2,659)
Contributions with donor restrictions	—	815	815
Donor restricted investments and other income, net	—	52	52
Net assets released from restrictions for operations	—	(317)	(317)
Change in net assets	34,996	550	35,546
Net assets at June 30, 2023	1,257,519	10,203	1,267,722
Excess of revenue over expenses	128,732	—	128,732
Change in net unrealized gain or loss on fixed income investments	224	—	224
Contributions with donor restrictions	—	1,003	1,003
Donor restricted investments and other income, net	—	11	11
Net assets released from restrictions for operations	—	(400)	(400)
Net assets released from restrictions for PPE	3,700	(3,700)	—
Change in net assets	132,656	(3,086)	129,570
Net assets at June 30, 2024	\$ 1,390,175	7,117	1,397,292

See accompanying notes to consolidated financial statements.

# SALEM HEALTH HOSPITALS AND CLINICS

## Consolidated Statements of Cash Flows

Years ended June 30, 2024 and 2023

(In thousands)

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 129,570	35,546
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	52,088	50,863
Change in net realized and unrealized losses (gains) on investments	(78,190)	(39,633)
Cash collections on contributions for long-term purposes	(3,700)	(608)
Gain on disposal of property and equipment	2,148	171
Equity income on joint venture	(1,174)	(525)
Equity distributions from joint venture	—	2,199
Changes in operating assets and liabilities:		
Patient accounts receivable	(34,518)	(4,548)
Other receivables	(4,104)	(15,798)
Supplies inventory	(1,292)	961
Prepaid expenses	2,267	32
Other noncurrent assets	5,399	(1,520)
Accounts payable	(2,730)	1,005
Accrued liabilities	21,524	6,250
Estimated third-party payor settlements, net	2,877	4,375
Accrued postretirement healthcare benefits	—	(2,001)
Other long-term liabilities	(929)	(801)
Estimated professional liability	297	3,259
Net cash provided by operating activities	89,533	39,227
Cash flows from investing activities:		
Purchases of investments	(236,340)	(51,623)
Investments or acquisitions of joint ventures	(32,732)	—
Proceeds from sales of investments	217,418	129,977
Purchases of property and equipment and rental and other property	(54,951)	(83,317)
Proceeds from sale of property, rental and other	3,724	—
Net cash used in investing activities	(102,881)	(4,963)
Cash flows from financing activities:		
Proceeds from line of credit	77,500	95,000
Repayment of long-term debt	(8,870)	(8,445)
Repayment of line of credit borrowings	(77,500)	(95,000)
Restricted contributions for long-term purposes	3,700	608
Principal repayment of financing lease liabilities	(931)	(903)
Net cash used in financing activities	(6,101)	(8,740)
Net increase (decrease) in cash and cash equivalents	(19,449)	25,524
Cash and cash equivalents at beginning of year	44,092	18,568
Cash and cash equivalents at end of year	\$ 24,643	44,092
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 19,854	20,314
Decrease in construction related payables	(120)	(6,884)
Fixed assets exchanged for note receivable from joint venture investee	—	5,460
Operating lease right of use assets acquired	14,456	4,123

See accompanying notes to consolidated financial statements.



## **SALEM HEALTH HOSPITALS AND CLINICS**

### **Notes to Consolidated Financial Statements**

June 30, 2024 and 2023

(In thousands)

#### **(1) Organization, Principles of Consolidation, and Operations**

Salem Health Hospitals and Clinics and its subsidiaries (collectively, the Corporation) are Oregon nonprofit corporations providing a comprehensive system of healthcare services to the communities of Salem and Dallas, Oregon, and the surrounding Marion and Polk Counties.

The accompanying consolidated financial statements include the accounts and transactions of the Corporation and its subsidiaries, of which Salem Health Hospitals and Clinics is the parent holding company and sole member. The subsidiaries consist of Salem Health (Salem) and Salem Health West Valley (West Valley) (collectively, the Hospitals); Salem Health Foundation (SHF) and West Valley Hospital Foundation (WVHF) (collectively, the Foundations); and Willamette Valley Insurance Corporation (WVIC), a captive insurance company domiciled in Hawaii. All significant intercompany accounts and transactions have been eliminated in consolidation. The Corporation has formed an obligated group that is responsible for paying hospital revenue bond debt. The obligated group is comprised of the parent holding company Salem Health Hospitals and Clinics, Salem Health, and Salem Health West Valley. Salem Health West Valley was added to the obligated group during the year ended June 30, 2023.

The Hospitals provide healthcare and healthcare related services to patients in their service areas. The Hospitals' mission is to improve the health and wellbeing of the people and the communities they serve. The Foundations are dedicated to raising, managing, and distributing funds to help the Hospitals achieve their mission.

#### **COVID 19 Pandemic and FEMA Funding**

Payments from FEMA are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID 19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using the funding to reimburse expenses or losses that other sources are obligated to reimburse. The Corporation recognized \$16,994 and \$9,278 of reimbursement from FEMA under the state of emergency during the year ended June 30, 2024 and 2023, included in other revenue in the consolidated statement of operations.

#### **(2) Summary of Significant Accounting Policies**

##### **(a) Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

##### **(b) Cash and Cash Equivalents**

Cash equivalents include investments in highly liquid instruments with original maturities of three months or less, excluding assets limited as to use. Cash equivalents totaled \$1,596 and \$309 at June 30, 2024 and 2023, respectively; cash equivalents exclude those balances held as part of the investment portfolio.

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

The Corporation maintains bank accounts at several financial institutions. The Corporation's bank balances at each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250. At June 30, 2024 and 2023, the Corporation's bank balances at certain financial institutions exceeded FDIC coverage.

#### **(c) Patient Accounts Receivable and Patient Service Revenue**

Patient accounts receivable are recorded at an estimated collectible amount and do not bear interest. Explicit price concessions are established as a result of negotiated reimbursement methodologies with third party payors.

The corporation also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record revenues at the estimated amounts the corporation expects to collect. The Corporation does not assess credit risk before services are rendered.

The mix of net patient receivables from significant third-party payors as of June 30, 2024 and 2023 was as follows:

	<b>June 30, 2024</b>	
Medicare	37 %	\$ 62,222
Medicaid	11	17,183
Self pay	—	527
Commercial and other payors	52	87,398
Total	100 %	\$ 167,330

  

	<b>June 30, 2023</b>	
Medicare	36 %	\$ 47,833
Medicaid	10	13,421
Self pay	—	415
Commercial and other payors	54	71,143
Total	100 %	\$ 132,812

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

The mix of patient service revenue from significant third-party payors for the years ended June 30, 2024 and 2023 was as follows:

	<b>Year ended June 30, 2024</b>	
Medicare	36 %	\$ 422,573
Medicaid	20	230,677
Self pay	—	1,708
Commercial and other payors	44	524,975
Total	100 %	\$ 1,179,933

  

	<b>Year ended June 30, 2023</b>	
Medicare	36 %	\$ 366,154
Medicaid	19	199,407
Self pay	—	1,359
Commercial and other payors	45	460,479
Total	100 %	\$ 1,027,399

The following tables represent patient service revenue by line of business in the years ending June 30, 2024 and 2023, respectively:

	<b>Year ended June 30, 2024</b>			
	<b>Inpatient</b>	<b>Outpatient</b>	<b>Clinics</b>	<b>Total</b>
Patient service revenue	\$ 574,405	510,062	95,466	1,179,933

  

	<b>Year ended June 30, 2023</b>			
	<b>Inpatient</b>	<b>Outpatient</b>	<b>Clinics</b>	<b>Total</b>
Patient service revenue	\$ 523,225	429,184	74,990	1,027,399

Performance obligations for healthcare services provided to patients generally relate to contracts of one year or less. Performance obligations for inpatient services are generally completed at the time the patients are discharged. Performance obligations for outpatient services are generally satisfied over a period of less than a day.

The Corporation elected the practical expedient option allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Services are rendered to patients under contractual arrangements with the Medicare and Medicaid programs and various other payors, including preferred provider organizations (PPOs) and health maintenance organizations (HMOs), which provide for payment or reimbursement at amounts different from established rates. Contractual adjustments represent the difference between established rates for services and amounts reimbursed by these third-party payors and represent explicit price concessions in the consolidated statement of operations.

The Medicare program reimburses Salem at prospectively determined rates for the majority of inpatient and outpatient services rendered to patients, primarily on the basis of Medicare severity diagnosis-related groups and Ambulatory Payment Classification Groups, respectively. West Valley is a "critical access hospital" (CAH) for Medicare and Medicaid program purposes. As a CAH, West Valley may not operate more than 25 beds and the average length of stay for acute care patients may not exceed 96 hours. The Medicare and Medicaid programs reimburse West Valley on the basis of its current allowable costs. When paid under cost reimbursement, the Hospitals are reimbursed at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the fiscal intermediaries, subjecting the Hospitals to retroactive settlements for prior year cost reports. In 2024 management received and recognized \$9,800 related to prior year cost reports. Income statement impacts of prior year cost reports in 2023 were not material.

Salem's cost reports have been audited and final settled by the Medicare fiscal intermediaries and the Medicaid administrators through June 30, 2021 and June 30, 2016, respectively. West Valley's cost reports have been audited and final settled by the Medicare fiscal intermediaries and the Medicaid administrators through June 30, 2020 and June 30, 2017, respectively.

The Hospitals have also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs to provide medical services to subscribing participants. The basis for payment to the Hospitals under these agreements includes prospectively determined rates per discharge, actual charges, and fee schedules.

#### **(d) *Supplies Inventory***

Supplies inventory is stated at the lower of cost (as determined by the first-in, first-out method) or market.

#### **(e) *Investments***

Investments consist of investments designated by the Corporation's board of trustees for future capital acquisitions and other purposes, investments held by the Foundations whose use has been restricted by donors, and assets held by a trustee under a bond indenture agreement (notes 5 and 6). Funds held by trustee are set aside in separate trust accounts for future capital projects and debt service reserve funds.

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

Investments in equity and debt securities are reported at fair value in the accompanying consolidated balance sheets. The fair values are based on quoted market prices at the reporting date for those or similar investments. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on equity investments, interest, and dividends) is primarily included in the excess of revenue over expenses unless the income or loss is restricted by the donor or law. The Corporation's debt investments are classified as other-than-trading securities at June 30, 2024 and 2023. Unrealized gains and losses on other-than-trading debt investments are excluded from excess of revenue over expenses unless they are considered other-than-temporarily impaired.

For each of the investment categories accounted for as other-than-trading, the Corporation continually monitors investment performance and the potential need to record an impairment on investments. A number of criteria are considered during this process including, but not limited to, whether the Corporation intends to sell the security, the current fair value as compared to cost of the security, the length of time the security's fair value has been below cost, the likelihood that the Corporation will be required to sell the security before recovery of its cost basis, objective information supporting recovery in a reasonable period of time, specific credit issues related to the issuer, and current economic conditions.

For debt securities that the Corporation does intend to sell or is more likely than not to be required to sell prior to recovery of the cost basis, the Corporation recognizes other-than-temporary losses in accordance with the provisions of the ASC Topic 320 *Investments – Debt and Equity Securities*. The amount of the other-than-temporary loss is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between a security's cost basis and the present value of expected future cash flows discounted at the security's effective interest rate. The amount due to all other factors is recognized in other changes in net assets. For the year ended June 30, 2024 or 2023, the Corporation recognized no other-than-temporary losses.

The Corporation holds investments in mutual funds, equities and common stock, corporate bonds, U.S. Treasury and government agency securities, money market funds, and mutual funds. Management believes that the Corporation's credit risk with respect to these investments is minimized due to the diversity of the individual investments and the financial strength of the entities, which have issued the securities or instruments. However, due to changes in economic conditions, interest rates, and common stock prices, the market value of the Corporation's investments can be volatile. Consequently, the fair value of the Corporation's investments could change significantly in the near term as a result of such volatility.

#### **(f) Property and Equipment**

Property and equipment (including rental and other property held for future development) are stated at cost. Donated property and equipment are recorded at estimated fair value on the date of donation. Improvements and replacements of property and equipment are capitalized. Routine maintenance and repairs are charged to expense as incurred.

## **SALEM HEALTH HOSPITALS AND CLINICS**

### **Notes to Consolidated Financial Statements**

June 30, 2024 and 2023

(In thousands)

Depreciation is computed using the straight-line method over the shorter of the lease term or estimated useful life of each class of depreciable asset. The estimated useful life of buildings and improvements is 5 to 50 years while the estimated useful life of equipment is 2 to 20 years. Net 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.

#### **(g) Long-Lived Assets**

Management reviews property and equipment and other long-term assets for possible impairment whenever events or circumstances indicate the carrying amount of such assets may not be recoverable. If there is an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposal. If these cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value. In addition to consideration of impairment due to the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are revised, the carrying value of affected assets is depreciated or amortized over the remaining lives.

#### **(h) Goodwill**

Goodwill is not subject to amortization. Management tests for impairment on an annual basis. No adjustment for impairment was made for the years ended June 30, 2024 or 2023.

#### **(i) Investments in Joint Ventures**

Investments in joint ventures are not consolidated. The Corporation would consolidate such investees if it (a) owns a majority of the investee's stock, controls a majority voting interest in the investee's board of directors and has an economic interest in the such investee, or (b) is the sole member of the investee. If these criteria are not met, or if the Corporation owns 50% or less of the voting stock of an investee and can exercise significant influence over the investee's operating and financial policies (generally presumed when the Corporation owns more than 20% of the voting stock), the Corporation accounts for such investments under the equity method of accounting, whereby the Corporation records its proportionate share of the investee's income or loss in the consolidated statements of operations and records distributions received from the investee as a reduction in the related investment balance.

#### **(j) Net Assets With Donor Restrictions**

Net assets with donor restrictions are those whose use has been limited by donors to a specific time period or purpose, or those whose use has been restricted by donors to be maintained in perpetuity.

#### **(k) Consolidated Statements of Operations**

Excess (deficit) of revenue over expenses from operations includes amounts generated from direct patient care, other revenue related to the operation of the Hospitals' facilities, and contributions without donor restrictions received by the Foundations. Other activities that result in income or expenses unrelated to the Hospitals' and the Foundations' primary missions are excluded from excess of revenue over expenses from operations. Other income (expense) includes net investment income, earnings on

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

joint ventures, change in unrealized gains and losses on equity investment securities, any other-than-temporary impairment losses on debt investment securities, rental income and expenses related to nonoperating real estate properties, gain on disposals of property and equipment, and other incidental transactions.

Changes in net assets without donor restrictions that are excluded from the excess (deficit) of revenue over expenses, consistent with industry practice, include the change in net unrealized gains (losses) on fixed income securities, change in net benefit obligation related to postretirement benefits, and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, are to be used for the purpose of acquiring such assets).

#### **(l) Contributions Received**

Unconditional promises to give cash and other assets to the Corporation are recorded as other revenue and other receivables at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift is received or at which point the conditions have been substantially met. Gifts are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When the terms of a donor restriction are met, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and consolidated statements of changes in net assets as net assets released from restrictions.

Contributions of long-lived assets, such as property and equipment, are reported as net assets without donor restrictions and are excluded from the excess of revenue over expenses. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

SHF is a beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently estimable. SHF's share of such bequests is recorded when the probate court has declared the testamentary instrument valid and the proceeds are measurable.

#### **(m) Income Taxes**

The Corporation, Salem, West Valley, SHF, WVH, SHPS, and WVIC are tax-exempt organizations pursuant to Internal Revenue Code Section 501(c)(3). As such, only unrelated business income is subject to federal or state income taxes. The provision for unrelated business income taxes is immaterial to the consolidated financial statements.

Accounting principles generally accepted in the United States of America require the Corporation to evaluate tax positions taken by the Corporation and recognize a tax liability (or an asset) if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the Corporation and has concluded that as of June 30, 2024, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

consolidated financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Corporation's management believes it is no longer subject to income tax examinations for years prior to fiscal year 2021.

#### **(n) State of Oregon Provider Tax**

The state of Oregon assesses a provider tax on certain qualifying hospitals. The Corporation recorded provider taxes of \$63,322 and \$55,502 for the years ended June 30, 2024 and 2023, respectively, which are included in purchased services and other expense in the accompanying consolidated statements of operations. In addition, the Corporation has entered into an agreement with the Hospital Association of Oregon (the Association), which provides that all payments owed to the Corporation related to beneficiaries of the Oregon Department of Medical Assistance Program are to be remitted directly to the Association. The Association aggregates these payments, returning a portion to the Corporation. The remaining funds are pooled by the Association with like amounts received on behalf of other hospitals subject to the provider tax, and the Association redistributes such funds to qualifying hospitals on a quarterly basis. The Corporation received \$63,305 and \$55,165 for the years ended June 30, 2024 and 2023, respectively, from the Association, which are reflected as a component of patient service revenue in the accompanying consolidated statements of operations.

#### **(o) Reclassifications**

Certain items previously reported in the prior-year financial statements have been reclassified to conform to current-year financial statement presentation.

### **(3) Benefits to the Community**

The Corporation provides services to the community both for people in need and to enhance the health status of the broader community as part of its charitable mission.

#### **(a) Services for People in Need**

The following tables represent the estimated cost of providing certain services to the community, where the related revenues do not fully cover cost of services along with a description of selected activities sponsored by the Hospitals during 2024 and 2023:

	Year ended June 30, 2024		
	Estimated costs to provide care	Offsetting revenue	Estimated net cost
Services for people in need:			
Charity care	\$ 20,638	—	20,638
Medicaid	305,268	235,080	70,188
Medicare	561,788	433,714	128,074
	<u>\$ 887,694</u>	<u>668,794</u>	<u>218,900</u>
Percentage of total operating expenses			17.9 %



## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

	<b>Year ended June 30, 2023</b>		
	<b>Estimated costs to provide care</b>	<b>Offsetting revenue</b>	<b>Estimated net cost</b>
Services for people in need:			
Charity care	\$ 19,221	—	19,221
Medicaid	275,149	206,423	68,726
Medicare	511,675	380,439	131,236
	<u>\$ 806,045</u>	<u>586,862</u>	<u>219,183</u>
Percentage of total operating expenses			19.5 %

In support of its mission, the Hospitals voluntarily provide medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care are determined based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, the Hospitals provide an uninsured discount of 53% to all uninsured patients. Further discounts are available for patients, on a sliding scale, whose household income is less than 400% of the federal poverty level, or roughly \$120 for a family of four in Salem, Oregon. For patients whose household income is at or below 300% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, the patients' qualified assets (e.g., assets and investments excluding patient's primary residence) and other catastrophic or economic circumstances are considered in determining eligibility for charity care.

In addition to charity care, the Hospitals provide services under various states' Medicaid programs for financially needy patients and to Medicare beneficiaries. The aggregate cost of providing services to Medicaid and Medicare beneficiaries exceeds the aggregate reimbursements from these programs.

The cost of services provided to beneficiaries of the Medicaid and Medicare programs and cost of charity care are estimated based on the relationship of costs (excluding the costs associated with medical education, research, community health services, and other contributions) to billed charges for Medicaid and Medicare patient accounts and for patient charges written off as charity deductions.

The Hospitals employ financial counselors and social workers, who assist patients in obtaining coverage for their healthcare needs. This includes assistance with workers compensation, motor vehicle accident policies, Consolidated Omnibus Budget Reconciliation Act (COBRA), veterans' assistance, and public assistance programs, such as Medicaid.

#### **(b) Benefits to Community**

Community health services include classes provided to the community at minimal or no cost, health education for children and parents with young families, resource centers, support groups, health screenings, senior wellness, volunteer programs, caregivers respite, and support for parish nursing programs.

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

Community benefit activities include activities that develop community health programs and partnerships.

Donations to charitable organizations include direct support provided to community organizations through cash or in-kind donations that support organizations' missions of supporting health and human services, civic and community causes, and business development efforts.

In-kind contributions provided by the Corporation include the following: facility space, staff availability for training and education opportunities, supplies, and professional services in collaboration with charitable, educational, and government organizations throughout the community.

#### **(c) Other Benefits**

In furtherance of its mission, the Corporation also commits significant time and resources to endeavors and critical services that meet unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include hospice; mental and behavioral health; primary care clinics in underserved neighborhoods; free patient transportation, lodging, meals, and medications for transient patients when needed; participation in blood drives; and the provision of educational opportunities for students interested in pursuing medical-related careers.

The Corporation also provides additional benefits to the community through the advocacy of community service by employees. Employees of the Corporation serve numerous organizations through board representation, membership in associations, and other related activities.

#### **(4) Liquidity and Availability**

Financial assets available for general expenditure within one year of the consolidated balance sheet date, consisted of the following:

	<u>2024</u>	<u>2023</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 24,643	44,092
Patient accounts receivable, net	167,330	132,812
Other receivables	37,543	33,439
Investments	<u>975,973</u>	<u>878,862</u>
Total financial assets	<u>1,205,489</u>	<u>1,089,205</u>

# SALEM HEALTH HOSPITALS AND CLINICS

## Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

	<u>2024</u>	<u>2023</u>
Less amounts not available to be used within one year:		
Funds held by trustees	\$ —	42
Donor-restricted endowed funds	<u>2,277</u>	<u>2,277</u>
Financial assets not available to meet general expenditures within one year	<u>2,277</u>	<u>2,319</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,203,212</u>	<u>1,086,886</u>

### (5) Investments

The composition of investments as of June 30, 2024 and 2023 is set forth in the following table. The following breakout indicates management's methodology for managing its investment portfolio. Investments are carried at fair value.

	<u>2024</u>	<u>2023</u>
Internally designated for operating and capital expenditures:		
Cash equivalents	\$ 18,524	16,706
Common stocks and equity mutual funds	476,411	467,706
Fixed-income mutual funds	464,066	371,607
Corporate bonds	3,964	4,431
U.S. government agency securities	2,252	2,253
U.S. Treasury securities	<u>3,125</u>	<u>5,549</u>
Total internally designated for operating and capital expenditures	<u>968,342</u>	<u>868,252</u>
Held by the foundations:		
Cash equivalents	284	685
Common stocks and equity mutual funds	6,149	5,846
Fixed-income mutual funds	1,198	1,456
U.S. Treasury securities	<u>—</u>	<u>2,581</u>
Total held by the Foundations	<u>7,631</u>	<u>10,568</u>
Held by trustee:		
Cash equivalents	<u>—</u>	<u>42</u>
Total held by trustee	<u>—</u>	<u>42</u>
Total investments	<u>\$ 975,973</u>	<u>878,862</u>

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

#### (6) Fair Value Measurements

##### (a) Fair Value of Financial Instruments

The fair values of the financial instruments, as discussed below, represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction among market participants at the measurement date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Corporation's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Corporation based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

*Investments:* All equity and debt securities are measured using quoted market prices at the reporting date multiplied by the quantity held when quoted market prices are available. If quoted market prices for those debt securities are not available, the fair value is determined using matrix pricing, which is based on quoted prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the designated security.

##### (b) Fair Value Hierarchy

FASB ASC Subtopic 820-10, *Fair Value Measurement*, establishes 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) and the lowest priority to measurements involving significant unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. There was no reclassification of securities between Level 1 and Level 2 during the fiscal year ended June 30, 2024 or 2023. There were no Level 3 securities at June 30, 2024 or 2023.

# SALEM HEALTH HOSPITALS AND CLINICS

## Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

The following table presents assets that were measured at fair value on a recurring basis at June 30, 2024:

		<b>Fair value measurements at reporting date using</b>	
		<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>
	<b>June 30, 2024</b>		
Assets:			
Cash equivalents	\$ 18,808	18,808	—
Common stocks and equity mutual funds	482,559	482,559	—
Fixed-income mutual funds	465,265	465,265	—
Corporate bonds	3,964	—	3,964
U.S. government agency securities	2,252	—	2,252
U.S. Treasury securities	3,125	3,125	—
Total	\$ 975,973	969,757	6,216

The following table presents assets and liabilities that were measured at fair value on a recurring basis at June 30, 2023:

		<b>Fair value measurements at reporting date using</b>	
		<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>
	<b>June 30, 2023</b>		
Assets:			
Cash equivalents	\$ 17,432	17,432	—
Common stocks and equity mutual funds	473,552	473,552	—
Fixed-income mutual funds	373,063	373,063	—
Corporate bonds	4,431	—	4,431
U.S. government agency securities	2,253	—	2,253
U.S. Treasury securities	8,131	8,131	—
Total	\$ 878,862	872,178	6,684

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

#### (7) Property and Equipment, Net

Property and equipment consisted of the following at June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Land and improvements	\$ 42,125	41,773
Buildings and improvements	948,962	914,046
Equipment	400,111	383,909
Finance lease right-of-use assets	17,582	17,582
	<u>1,408,780</u>	<u>1,357,310</u>
Less accumulated depreciation	<u>(749,460)</u>	<u>(704,897)</u>
	659,320	652,413
Construction in progress	<u>75,310</u>	<u>65,292</u>
Property and equipment, net	<u>\$ 734,630</u>	<u>717,705</u>

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. The Corporation capitalized \$0 and \$253 in the years ending June 30, 2024 and 2023, respectively.

#### (8) Investments in Joint Ventures

The following is a summary of the Corporation's related-party investments which are included in other noncurrent assets in the accompanying consolidated balance sheets at June 30, 2024 and 2023:

Entity	Basis of accounting	Investment balance included in the accompanying consolidated balance sheets as of		The Corporation's share of income (losses) included in the accompanying consolidated statements of operations for the fiscal years ended	
		June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
SOSC	Equity method	\$ —	—	—	(2,324)
WSC Building Group	Equity method	—	7,525	—	—
WSC	Equity method	—	21,469	1,174	2,849
		<u>\$ —</u>	<u>28,994</u>	<u>1,174</u>	<u>525</u>

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

#### **(a) Willamette Surgery Center, LLC**

As of September 29, 2023, the Corporation completed purchases of all ownership shares of both Willamette Surgery Center, LLC and WSC Building Group, 45.8% and \$23,520 and 49% and \$7,982, respectively. Willamette Surgery Center, LLC (WSC) is a limited liability company whose sole member is the Corporation. Prior to this purchase, the Corporation accounted for the investment under the equity method of accounting. The consolidation of the entities resulted in additional goodwill of \$42,767. WSC no longer operates as of October 31, 2023, however, employees and activities of WSC have been absorbed into the operations of Salem Hospital. The Corporation received member distributions of \$2,628 and \$2,199 in the years ending June 30, 2024 and 2023, respectively. WSC Building Group LLC is a limited liability company whose member is solely the Corporation. WSC Building Group LLC was solely responsible for holding the surgery center real estate.

#### **(b) The Salem Ambulatory Surgery Center, LLC**

The Salem Ambulatory Surgery Center, LLC dba Salem Outpatient Surgery Center (SOSC) is a limited liability company whose members were the Corporation and various community physician partners. As of June 30, 2023 the surgery center has ceased operations and the full ownership was assumed by the Corporation.

### **(9) Long-Term Debt**

Long-term debt consisted of the following at June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Hospital Revenue Bonds, Series 2016A; payable in installments from \$2,435 to \$15,490 over the remaining life of the bond; interest at rates ranging from 2.00% to 5.00%	\$ 172,555	174,870
Hospital Revenue Bonds, Series 2019A; payable in installments from \$5,530 to \$50,000 over the remaining life of the bond; interest at rates ranging from 3.00% to 5.00%	253,675	260,230
Finance lease liability (a)	5,591	6,521
Unamortized cost of issuance	(1,262)	(1,314)
Unamortized premium on bonds, net	<u>41,707</u>	<u>44,514</u>
	472,266	484,821
Less current portion	<u>(13,079)</u>	<u>(12,599)</u>
	<u>\$ 459,187</u>	<u>472,222</u>

(a) The interest rate on the lease financing obligation was 1.96% at June 30, 2024. For more information on our lease financing obligations, see Note 12, Leases.

The Obligated Group is required to satisfy certain measures of financial performance as long as the bonds are outstanding under the Master Trust Indenture.

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

In November 2016, Salem entered into a loan agreement with the Hospital Facility Authority of Salem (the Authority), whereby the Authority issued \$197,685 of par amount fixed-rate, tax-exempt revenue refunding bonds (Series 2016A Bonds). The proceeds from Series 2016A were used to refund, redeem and defease various outstanding bond obligations.

In October 2019, Salem entered into a loan agreement with the Authority, whereby the Authority issued \$279,480 of par amount fixed-rate, tax-exempt revenue refunding bonds (Series 2019A Bonds). The proceeds from Series 2019A were used to (i) refund, redeem and defease the 2008B Bonds, (ii) terminate and settle the interest rate swap associated with 2008B Bonds, (iii) finance the construction of a new hospital tower on the Corporation's main campus, and (iv) pay fees and expenses related to the Series 2019A Bonds.

Salem Health may borrow up to \$100,000 under its line of credit agreement until it expires April 11, 2025. There were no outstanding borrowings against the line at June 30, 2024 and 2023, respectively.

Scheduled principal repayments of long-term bonds are as follows:

	<b>Revenue bonds</b>
2025	\$ 9,310
2026	9,710
2027	10,170
2028	10,680
2029	11,210
Thereafter	375,150
	<u>\$ 426,230</u>

### (10) Net Assets with Donor Restrictions

Net assets were restricted for the following purposes at June 30, 2024 and 2023:

	<b>2024</b>	<b>2023</b>
Subject to expenditure for specified purpose:		
Acquisition or construction of property and equipment for the hospitals	\$ 1,481	4,702
Specific programs of the hospitals	2,669	2,476
Scholarships	338	411
Other	352	337
	<u>4,840</u>	<u>7,926</u>



## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

	<u>2024</u>	<u>2023</u>
Donor-restricted endowed funds:		
Acquisition or construction of property and equipment for the hospitals	\$ 1,091	1,091
Specific programs of the hospitals	538	538
Scholarships	357	357
Other	291	291
	<u>2,277</u>	<u>2,277</u>
Total donor restricted net assets	<u>\$ 7,117</u>	<u>10,203</u>

#### (11) Defined-Contribution Retirement Plan

The Corporation has a contributory, defined-contribution retirement plan (the Retirement Plan) covering substantially all full-time employees. All eligible employees are allowed to contribute to the Retirement Plan on the first day of the month following their date of hire. The Hospitals contribute 5.5% to 8.5% of participating employees' annual compensation to the Retirement Plan. To receive the benefit of the Hospitals' contributions, employees must have one year or more of service at one of the Hospitals and contribute at least 1.0% of their annual compensation to the Retirement Plan. The Retirement Plan's costs were \$29,797 and \$25,675 for the fiscal years ended June 30, 2024 and 2023, respectively, and are included in labor and benefits in the accompanying consolidated statements of operations.

#### (12) Leases

The Corporation leases medical and administrative office buildings and equipment to support operations. The operating and finance leases are reflected within the consolidated balance sheets as follows at June 30, 2024 and 2023:

	<u>June 30, 2024</u>		
	<u>Operating leases</u>	<u>Finance leases</u>	<u>Total</u>
Assets:			
Rental and other property, net	\$ 22,655	—	22,655
Property and equipment, net	—	9,084	9,084
Total leased assets	<u>\$ 22,655</u>	<u>9,084</u>	<u>31,739</u>

# SALEM HEALTH HOSPITALS AND CLINICS

## Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(In thousands)

	June 30, 2024		
	Operating leases	Finance leases	Total
Liabilities:			
Lease liabilities due within one year:			
Accrued liabilities other	\$ 3,656	—	3,656
Current portion of long-term debt	—	1,024	1,024
Long-term lease liabilities:			
Other long-term liabilities	19,358	—	19,358
Long-term debt, net of current portion	—	4,567	4,567
Total lease liabilities	<u>\$ 23,014</u>	<u>5,591</u>	<u>28,605</u>

	June 30, 2023		
	Operating leases	Finance leases	Total
Assets:			
Rental and other property, net	\$ 12,918	—	12,918
Property and equipment, net	—	11,216	11,216
Total leased assets	<u>\$ 12,918</u>	<u>11,216</u>	<u>24,134</u>
Liabilities:			
Lease liabilities due within one year:			
Accrued liabilities other	\$ 3,537	—	3,537
Current portion of long-term debt	—	921	921
Long-term lease liabilities:			
Other long-term liabilities	9,541	—	9,541
Long-term debt, net of current portion	—	5,600	5,600
Total lease liabilities	<u>\$ 13,078</u>	<u>6,521</u>	<u>19,599</u>

The weighted average remaining terms of operating and financing leases were 8 and 5 years, respectively for the year ended June 30, 2024, and 5 and 6 years, respectively for the year ended June 30, 2023. The weighted average discount rates on operating and financing leases were 3.99% and 1.96%, respectively for the year ended June 30, 2024, and 2.90% and 1.96%, respectively for the year ended June 30, 2023.

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

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(In thousands)

The Corporation incurred lease expenses for the year ended June 30, 2024 and 2023 as follows:

	<u>2024</u>	<u>2023</u>
Finance lease expense included in depreciation and amortization:		
Amortization of ROU assets	\$ 1,758	1,819
Finance lease expense included in interest:		
Interest on lease liabilities	118	136
Total finance lease expense	<u>1,876</u>	<u>1,955</u>
Operating lease expense included in purchased services and other	\$ 4,248	3,059
Operating lease expense included in other, net	1,062	765
Short-term lease expense included in purchased services and other	1,562	758
Short-term lease expense included in other, net	391	190
Total operating lease expense	<u>\$ 7,263</u>	<u>4,772</u>

The finance and operating leases liabilities will mature as follows:

	<u>Finance leases</u>	<u>Operating leases</u>	<u>Total leases</u>
2025	\$ 1,125	4,440	5,565
2026	1,142	4,319	5,461
2027	1,142	3,732	4,874
2028	1,142	2,625	3,767
2029	1,142	2,492	3,634
Thereafter	190	9,709	9,899
Interest	(292)	(4,303)	(4,595)
	<u>\$ 5,591</u>	<u>23,014</u>	<u>28,605</u>

### (13) Functional Classification of Expenses

The Corporation allocates expenses by function on a department basis based on their functional role. Departments supporting the entire corporation in a support services function are classified as management and general; departments providing hospital based services and clinics providing ambulatory services are categorized accordingly. Foundation expenses consist of both the hospital foundations and the support

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

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(In thousands)

services associated with operating those foundations incurred by other Salem entities. Expenses on a functional basis for the fiscal years ended June 30, 2024 and 2023 were as follows:

<b>2024</b>					
	<b>Hospital</b>	<b>Clinics</b>	<b>Foundation</b>	<b>General and administrative</b>	<b>Total</b>
Labor and benefits	\$ 478,629	164,257	243	148,102	791,231
Medical and other supplies	138,972	6,401	105	8,874	154,352
Purchased services and other	90,868	6,470	5,522	55,994	158,854
Depreciation	31,601	2,356	100	21,258	55,315
Professional fees	15,025	17,562	31	10,828	43,446
Interest and amortization	17,014	—	—	—	17,014
Total	<u>\$ 772,109</u>	<u>197,046</u>	<u>6,001</u>	<u>245,056</u>	<u>1,220,212</u>

  

<b>2023</b>					
	<b>Hospital</b>	<b>Clinics</b>	<b>Foundation</b>	<b>General and administrative</b>	<b>Total</b>
Labor and benefits	\$ 443,781	132,542	262	119,151	695,736
Medical and other supplies	132,967	4,275	66	8,092	145,400
Purchased services and other	83,654	4,622	3,292	53,444	145,012
Depreciation	29,686	2,361	101	21,301	53,449
Professional fees	13,942	21,620	7	9,612	45,181
Interest and amortization	17,383	—	—	—	17,383
Total	<u>\$ 721,413</u>	<u>165,420</u>	<u>3,728</u>	<u>211,600</u>	<u>1,102,161</u>

#### (14) Commitments and Contingencies

##### (a) General and Professional Liability Insurance

On a claims-made basis, WVIC provides primary insurance coverage up to a \$1,000 self-insured retention limit per occurrence and \$6,000 annual aggregate limits for healthcare professional and general liability (\$1,000/\$6,000 limits) for Salem and West Valley for the years ending June 30, 2024 and 2023. Excess insurance coverage is in place. In excess of the \$1,000/\$6,000 limits, the Hospitals annually purchase excess coverage for claims up to \$35,000 in aggregate on a claims-made basis. Excess contracts do not relieve the Corporation from its obligations to claimants. The Corporation evaluates the financial condition of its excess carriers.

General and professional liability costs are accrued based upon an actuarial determination with estimated incurred-but-not-reported professional liability losses recorded at the expected, undiscounted level. The Corporation has recorded estimated liabilities for incurred-but-not-reported professional liability claims and for deductibles on reported claims aggregating \$13,654 and \$13,357 as of June 30, 2024 and 2023, respectively. The estimated liabilities for incurred-but-not-reported medical claims are recorded on the Hospitals' books. WVIC carries the estimated liabilities for deductibles on reported

## **SALEM HEALTH HOSPITALS AND CLINICS**

### **Notes to Consolidated Financial Statements**

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(In thousands)

claims. Management believes that these estimated liabilities are adequate; however, the establishment of estimated liabilities for incurred-but-not-reported medical malpractice claims and for deductibles on reported claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact operations in future periods.

The Corporation records claim liabilities without consideration of insurance recoveries and receivables for insurance recoveries to be reported separately subject to a valuation allowance as appropriate. The Corporation recorded an asset for insurance recoveries receivable and estimated liabilities in the amount of \$3,051 and \$2,810 as of June 30, 2024 and 2023, respectively. The insurance recovery receivable and insured claims liability are included in other noncurrent assets and estimated professional liability in the accompanying consolidated balance sheets. No valuation allowance was recorded related to reinsurance receivables as of June 30, 2024 and 2023.

#### **(b) Self-Insured Employee Benefits**

The Corporation is self-insured for employee's medical and dental claims. Claims are accrued as incurred. The Corporation has recorded an accrual for the estimated claims, including estimates of the ultimate costs for both reported claims and claims incurred but not reported of \$8,338 and \$6,980 as of June 30, 2024 and 2023, respectively. Management believes that these amounts, which have been included within other accrued liabilities in the accompanying consolidated balance sheets, are adequate to cover estimated employee's medical and dental claims.

#### **(c) Risk Management**

In the ordinary course of business, the Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the fiscal year ended June 30, 2024 or 2023. The Corporation is self-insured for workers' compensation claims. The Corporation has recorded estimated liabilities for claims in the amount of \$3,890 and \$3,563 as of June 30, 2024 and 2023, respectively, which have been included in other accrued liabilities in the accompanying balance sheet.

## SALEM HEALTH HOSPITALS AND CLINICS

### Notes to Consolidated Financial Statements

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(In thousands)

#### **(d) Regulation and Litigation**

The healthcare industry is governed by various laws and regulations of federal, state, and local governments. These laws and regulations are subject to ongoing government review and interpretation and include matters such as licensure, accreditation, reimbursement for patient services, and referrals for Medicare and Medicaid beneficiaries. Compliance with these laws and regulations is required for participation in government healthcare programs and have become more complicated in recent years due to changes resulting from the health reform law and the introduction of health benefit exchanges and coordinated care organizations into the local marketplace. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by healthcare providers. These types of investigations may result in settlements involving fines and penalties, as well as repayment of improper reimbursement. The Corporation has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of significant instances of noncompliance.

#### **(15) Lean Initiatives (Unaudited)**

The lean management system (Lean) was initially introduced to the Corporation in 2010 to improve the quality of care and transform their culture. The purpose of Lean is to create value for the patient through its three main components: continuous improvement, elimination of waste and variation, and respect for people. Using Lean, the Corporation aligns its strategies to their daily work: engaging its providers and employees to become problem solvers and continually ask the question “why,” ensuring all employees work together toward the same outcomes and keeping the Corporation strong and effective.

In fiscal years 2024 and 2023, the Corporation had a strategic goal to engage frontline staff in leading and completing a Lean activity to remove waste from the system, creating improved value for their patients.

	<b>12 months ended June 30</b>	
	<b>2024</b>	<b>2023</b>
	(Not in thousands)	
% of front line staff leading and completing a lean activity	100 %	98 %
Total lean activities completed	7,829	6,452

The Corporation continues to invest increasing efforts in Lean to create value for their patients by increasing access to care, improving patient experience, and delivering quality care at a lower cost.

#### **(16) Subsequent Events**

The Corporation evaluated subsequent events after the consolidated balance sheet date of June 30, 2024 through October 4, 2024 which was the date the consolidated financial statements were issued.

## SALEM HEALTH HOSPITALS AND CLINICS

## Supplemental Schedule – Consolidating Balance Sheet Information

June 30, 2024

(In thousands)

	<b>Obligated group</b>	<b>Non-obligated group and eliminations</b>	<b>Consolidated FY24</b>	<b>Consolidated FY23</b>
Current assets:				
Cash and cash equivalents	\$ 21,648	2,995	24,643	44,092
Patient accounts receivable, net	167,330	—	167,330	132,812
Other receivables	38,545	(1,002)	37,543	33,439
Supplies inventory	11,844	—	11,844	10,552
Prepaid expense and other	13,322	13	13,335	15,602
Total current assets	252,689	2,006	254,695	236,497
Investments	950,323	25,650	975,973	878,862
Property and equipment, net	717,219	17,411	734,630	717,705
Rental and other property held for future development, net	43,700	692	44,392	38,876
Investments in health related entities	71,063	(71,063)	—	28,994
Other noncurrent assets	9,767	(4,140)	5,627	8,302
Goodwill	15,023	42,767	57,790	15,023
Total assets	<u>\$ 2,059,784</u>	<u>13,323</u>	<u>2,073,107</u>	<u>1,924,259</u>

## SALEM HEALTH HOSPITALS AND CLINICS

## Supplemental Schedule – Consolidating Balance Sheet Information

June 30, 2024

(In thousands)

	Obligated group	Non-obligated group and eliminations	Consolidated FY24	Consolidated FY23
Current liabilities:				
Accounts payable	\$ 63,757	446	64,203	67,053
Accrued liabilities:				
Payroll, payroll taxes, and withholdings	36,859	—	36,859	21,245
Paid time off	34,984	—	34,984	29,526
Other	19,519	—	19,519	19,067
Estimated third-party payor settlements, net	14,675	—	14,675	11,798
Current portion of long-term debt	13,079	—	13,079	12,599
Current portion of estimated professional liability	2,579	—	2,579	2,399
Total current liabilities	185,452	446	185,898	163,687
Long-term debt, net of current portion	459,187	—	459,187	472,222
Other long-term liabilities	19,655	—	19,655	9,670
Estimated professional liability, net of current portion	3,051	8,024	11,075	10,958
Total liabilities	667,345	8,470	675,815	656,537
Net assets:				
Without donor restrictions	1,388,299	1,876	1,390,175	1,257,519
With donor restrictions	4,140	2,977	7,117	10,203
Total net assets	1,392,439	4,853	1,397,292	1,267,722
Total liabilities and net assets	\$ 2,059,784	13,323	2,073,107	1,924,259

See accompanying independent auditors' report.



## SALEM HEALTH HOSPITALS AND CLINICS

## Supplemental Schedule – Consolidating Operations Information

Fiscal year ending June 30, 2024

(In thousands)

	Obligated group	Non-obligated group and eliminations	Consolidated FY24	Consolidated FY23
Operating revenue:				
Patient service revenue	\$ 1,179,933	—	1,179,933	1,027,399
Other revenue	55,745	(84)	55,661	48,927
Net assets released from restriction used for operations	—	400	400	317
Total operating revenue	1,235,678	316	1,235,994	1,076,643
Operating expenses:				
Labor and benefits	791,231	—	791,231	695,736
Medical and other supplies	154,348	4	154,352	145,400
Purchased services and other	156,088	2,766	158,854	145,012
Depreciation	55,315	—	55,315	53,449
Professional fees	43,371	75	43,446	45,181
Interest and amortization	17,014	—	17,014	17,383
Total operating expenses	1,217,367	2,845	1,220,212	1,102,161
(Deficit) excess of revenue over expenses from operations	18,311	(2,529)	15,782	(25,518)
Other income (loss):				
Investment (loss) income, net	115,441	2,365	117,806	69,986
Gain on disposal of property and equipment	(2,148)	—	(2,148)	(171)
Other, net	(2,949)	241	(2,708)	(6,481)
Total other income (expense)	110,344	2,606	112,950	63,334
(Deficit) excess of revenue over expenses	128,655	77	128,732	37,816
Change in net unrealized gain or loss on fixed income investments	—	224	224	(161)
Change in postretirement benefit obligation	—	—	—	(2,659)
Net assets released from restriction used for property and equipment	3,700	—	3,700	—
Change in net assets without donor restrictions	\$ 132,355	301	132,656	34,996

See accompanying independent auditors' report.