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Report of Independent Auditors  
and Consolidated Financial Statements  
with Supplementary Information

**Sky Lakes Medical Center and Affiliates**

September 30, 2024 and 2023



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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, 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 consolidated financial position of the Medical Center as of September 30, 2024 and 2023, 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.

#### *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 consolidated 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 39–46 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 December 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 flourish at the end.

San Francisco, California  
December 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, 2024, 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 December 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.



San Francisco, California  
December 19, 2024

## **Financial Statements**

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# Sky Lakes Medical Center and Affiliates

## Consolidated Balance Sheets

September 30, 2024 and 2023

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	2024	2023
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 30,914,000	\$ 19,509,000
Patient accounts receivable, net	44,411,000	34,976,000
Other receivables	6,665,000	10,965,000
Risk pool withhold receivable	11,117,000	8,240,000
Supplies inventory	10,328,000	9,554,000
Prepaid expenses	6,410,000	7,433,000
Other current assets	<u>750,000</u>	<u>750,000</u>
Total current assets	<u>110,595,000</u>	<u>91,427,000</u>
<b>ASSETS LIMITED AS TO USE</b>		
PROPERTY AND EQUIPMENT, net	136,919,000	140,049,000
<b>OPERATING LEASE RIGHT-OF-USE ASSETS</b>	2,637,000	3,422,000
<b>INVESTMENTS</b>	201,590,000	196,564,000
<b>DEFERRED REVENUE</b>	<u>899,000</u>	<u>955,000</u>
<b>Total assets</b>	<b><u>\$ 452,795,000</u></b>	<b><u>\$ 438,030,000</u></b>

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See accompanying notes.

# Sky Lakes Medical Center and Affiliates

## Consolidated Balance Sheets

September 30, 2024 and 2023

	2024	2023
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 11,101,000	\$ 13,713,000
Accrued payroll	8,566,000	9,101,000
Accrued compensated absences	7,830,000	7,137,000
Accrued interest payable	226,000	246,000
Other accrued expenses	19,445,000	15,046,000
Estimated third-party payor settlements	1,752,000	735,000
Long-term debt, current portion	5,055,000	5,187,000
Operating lease obligations, current portion	728,000	680,000
Finance lease obligations, current portion	395,000	442,000
 Total current liabilities	 55,098,000	 52,287,000
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, net of current portion, deferred financing costs, premium, and discount	55,491,000	60,678,000
Operating lease obligations, net of current portion	2,046,000	2,773,000
Finance lease obligations, net of current portion	4,860,000	5,174,000
Other long-term liabilities	10,691,000	10,835,000
 Total long-term liabilities	 73,088,000	 79,460,000
 Total liabilities	 128,186,000	 131,747,000
<b>NET ASSETS</b>		
Without donor restrictions		
Sky Lakes Medical Center	311,584,000	295,157,000
Non-controlling interest	980,000	1,577,000
 Total without donor restrictions	 312,564,000	 296,734,000
 With donor restrictions	 12,045,000	 9,549,000
 Total net assets	 324,609,000	 306,283,000
 Total liabilities and net assets	 \$ 452,795,000	 \$ 438,030,000

See accompanying notes.

**Sky Lakes Medical Center and Affiliates**  
**Consolidated Statements of Operations**  
**Years Ended September 30, 2024 and 2023**

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	<u>2024</u>	<u>2023</u>
<b>REVENUES</b>		
Patient service revenue, net	\$ 333,060,000	\$ 308,587,000
Other revenue	<u>23,504,000</u>	<u>16,160,000</u>
 Total revenues	 <u>356,564,000</u>	 <u>324,747,000</u>
<b>EXPENSES</b>		
Salaries and benefits	169,690,000	154,078,000
Purchased services	52,034,000	51,836,000
Drugs	37,810,000	33,822,000
Supplies	19,874,000	18,138,000
Building and maintenance	20,403,000	18,732,000
Depreciation and amortization	12,652,000	12,113,000
Provider tax	16,887,000	16,004,000
Physician fees	10,953,000	10,661,000
Other	4,551,000	3,550,000
Interest expense	2,738,000	2,850,000
Insurance	3,187,000	3,102,000
Minor equipment	1,348,000	1,102,000
Professional fees	1,908,000	1,437,000
Rentals and lease expense	<u>440,000</u>	<u>607,000</u>
 Total expenses	 <u>354,475,000</u>	 <u>328,032,000</u>
<b>OPERATING INCOME (LOSS)</b>	<u>2,089,000</u>	<u>(3,285,000)</u>
<b>OTHER INCOME (EXPENSE)</b>		
Investment income	3,914,000	2,496,000
Change in unrealized gains and losses on investment securities	4,393,000	1,927,000
Contributions	-	207,000
Net assets released from restrictions	750,000	876,000
Other non-operating expense	<u>(2,360,000)</u>	<u>(1,900,000)</u>
 Total other income, net	 <u>6,697,000</u>	 <u>3,606,000</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<b><u>\$ 8,786,000</u></b>	<b><u>\$ 321,000</u></b>

See accompanying notes.

**Sky Lakes Medical Center and Affiliates**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended September 30, 2024 and 2023**

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	<u>2024</u>	<u>2023</u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Excess of revenues over expenses	\$ 8,786,000	\$ 321,000
Contributions	11,000	13,000
Net change in unrealized gains and losses on life insurance	<u>7,033,000</u>	<u>1,711,000</u>
 Increase in net assets without donor restrictions	 <u>15,830,000</u>	 <u>2,045,000</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>		
Contributions	586,000	1,186,000
Net change in unrealized gains and losses on investments	2,386,000	975,000
Investment income	274,000	354,000
Net assets released from restrictions	<u>(750,000)</u>	<u>(876,000)</u>
 Increase in net assets with donor restrictions	 <u>2,496,000</u>	 <u>1,639,000</u>
<b>CHANGE IN NET ASSETS</b>	  <u>18,326,000</u>	  <u>3,684,000</u>
<b>NET ASSETS, beginning of year</b>	  <u>306,283,000</u>	  <u>302,599,000</u>
<b>NET ASSETS, end of year</b>	  <u><u>\$ 324,609,000</u></u>	  <u><u>\$ 306,283,000</u></u>

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See accompanying notes.

**Sky Lakes Medical Center and Affiliates**  
**Consolidated Statements of Cash Flows**  
**Years Ended September 30, 2024 and 2023**

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	<u>2024</u>	<u>2023</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 18,326,000	\$ 3,684,000
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	12,652,000	12,113,000
Net amortization of premiums and accretion of discounts on investments held-to-maturity	350,000	592,000
Net amortization of premiums and accretion of discounts on bonds	(193,000)	(861,000)
Net change in deferred financing costs	61,000	(4,000)
Net change in unrealized gains and losses	(6,779,000)	(2,902,000)
Realized gain on sale of investments	(7,484,000)	(2,771,000)
Gain on sale of property and equipment	45,000	24,000
Net change in the cash surrender value of corporate owned life insurance	(5,322,000)	(1,711,000)
Non-cash lease expense	106,000	31,000
Contributions to non-controlling interest	-	(13,000)
(Increase) decrease in		
Patient accounts receivable, net	(9,435,000)	751,000
Other receivables	4,300,000	(4,968,000)
Risk pool withhold receivable	(2,877,000)	737,000
Supplies inventory	(774,000)	(2,138,000)
Prepaid expenses	1,023,000	(1,840,000)
Deferred revenue	56,000	56,000
Increase (decrease) in		
Accounts payable	(2,612,000)	4,111,000
Accrued payroll	(535,000)	376,000
Accrued compensated absences	693,000	619,000
Accrued interest payable	(20,000)	5,000
Other accrued expenses	4,399,000	2,232,000
Estimated third-party payor settlements	1,017,000	(1,103,000)
Other long-term liabilities	<u>(144,000)</u>	<u>207,000</u>
Net cash provided by operations	<u>6,853,000</u>	<u>7,227,000</u>

See accompanying notes.

**Sky Lakes Medical Center and Affiliates**  
**Consolidated Statements of Cash Flows**  
**Years Ended September 30, 2024 and 2023**

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	<u>2024</u>	<u>2023</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/redemption of investments	\$ 23,318,000	\$ 21,315,000
Purchase of investments	(9,109,000)	(2,967,000)
Purchase of corporate owned life insurance	-	(6,000,000)
Purchase of property and equipment	<u>(9,593,000)</u>	<u>(15,410,000)</u>
Net cash flows provided by (used in) investing activities	<u>4,616,000</u>	<u>(3,062,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of Series 2022 Bonds	-	11,000,000
Proceeds from issuance of new bank loan	-	1,890,000
Payments on long-term debt	(5,187,000)	(11,377,000)
Payments on finance lease obligations	(335,000)	(456,000)
Contributions from non-controlling interest	<u>-</u>	<u>13,000</u>
Net cash flows (used in) provided by financing activities	<u>(5,522,000)</u>	<u>1,070,000</u>
Net increase in cash, cash equivalents, and restricted cash	5,947,000	5,235,000
Cash, cash equivalents, and restricted cash - beginning	<u>25,122,000</u>	<u>19,887,000</u>
Cash, cash equivalents, and restricted cash - ending	<u>\$ 31,069,000</u>	<u>\$ 25,122,000</u>
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>		
Cash and cash equivalents	\$ 30,914,000	\$ 19,509,000
Cash and cash equivalents included in asset limited to use	<u>155,000</u>	<u>5,613,000</u>
	<u>\$ 31,069,000</u>	<u>\$ 25,122,000</u>
<b>SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 2,758,000</u>	<u>\$ 2,845,000</u>
Non-cash investing and financing activities		
Right-of-use assets obtained with finance leases	\$ 26,000	\$ 4,641,000
Right-of-use assets obtained with operating leases	<u>\$ -</u>	<u>\$ 3,843,000</u>

See accompanying notes.

# **Sky Lakes Medical Center and Affiliates**

## **Notes to Consolidated Financial Statements**

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### **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, emergency care, physician, retail pharmacy and home health 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 and they indirectly own approximately 23% 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**

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### **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**

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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, net**

At September 30, 2024 and 2023, 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, 2024 and 2023, 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, 2022 was \$35,727,000.

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

	<u>2024</u>	<u>2023</u>
Medicare	46%	41%
Medicaid	25%	22%
Other third-party payors	26%	34%
Self-pay	3%	3%
 Total	 <u>100%</u>	 <u>100%</u>

### **Other receivables**

Other receivables consist mainly of the receivable from provider tax receivable, employee loan receivables, and other miscellaneous receivables. The Medical Center evaluates the collectability of its other receivables by estimating the expected credit losses over the life of the receivables. The Company utilizes historical loss data, current economic conditions, and reasonable and supportable forecasts to estimate the expected credit losses.

## **Sky Lakes Medical Center and Affiliates**

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

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#### **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.

#### **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, donor restricted or investments in life insurance policies.

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.

## **Sky Lakes Medical Center and Affiliates**

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

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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.

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 \$3,381,000 and \$3,804,000 at September 30, 2024 and 2023, 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 \$417,000 and \$361,000 at September 30, 2024 and 2023, 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, 2024, the security deposit requirement was \$610,000. To fulfill the security deposit requirement, the Medical Center has a standby letter of credit with US Bank for \$665,000 with an expiration date of July 31, 2025.

# **Sky Lakes Medical Center and Affiliates**

## **Notes to Consolidated Financial Statements**

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### **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 \$348,000 and \$394,000 as of September 30, 2024 and 2023, respectively. Insurance recoveries are not historically significant.

### **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.

## **Sky Lakes Medical Center and Affiliates**

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

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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.

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, 2024 and 2023.

## **Sky Lakes Medical Center and Affiliates**

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

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#### **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. During the year ended September 30, 2024, the Medical Center adjusted its charity care program to align with Oregon HB 3320 requirements. These changes included expanding eligibility criteria to ensure broader access and modifying application and verification processes to comply with the updated state law. Total cost of charity care provided by the Medical Center was approximately \$7,898,000 and \$3,535,000 for the years ended September 30, 2024 and 2023, respectively.

#### **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 consolidated 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.

## **Sky Lakes Medical Center and Affiliates**

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

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#### **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.

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.

#### **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, 2024 or 2023. 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, 2024 and 2023, 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.

## **Sky Lakes Medical Center and Affiliates**

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

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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, 2024 and 2023.

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.

#### **Adoption of new accounting standards**

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), intended to improve the timing, and enhance the accounting and disclosure of credit losses on financial assets. This update modified the existing accounting guidance related to the impairment evaluation for available-for-sale debt securities, reinsurance recoverables, and premiums receivable and could result in the creation of an allowance for credit losses as a contra asset account. The ASU requires a cumulative-effect change to net assets in the period of adoption and prospective changes on previously recorded impairments, to the extent applicable. The Medical Center adopted ASU No. 2016-03 on October 1, 2023, using the modified retrospective approach. The adoption did not have a material impact to the Medical Center's consolidated financial statements.

#### **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.

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

## **Sky Lakes Medical Center and Affiliates**

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

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#### **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 46% (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.

## Sky Lakes Medical Center and Affiliates

### Notes to Consolidated Financial Statements

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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.

	2024	2023
Other third-party payors	\$ 104,743,000	\$ 101,997,000
Medicare	157,464,000	139,494,000
Medicaid	69,823,000	66,041,000
Self-pay	<u>1,030,000</u>	<u>1,055,000</u>
 Total patient service revenue, net	 <u>\$ 333,060,000</u>	 <u>\$ 308,587,000</u>

### **Note 3 – Investments**

Investments at September 30 include:

	2024	2023
Life insurance	\$ 140,537,000	\$ 130,475,000
Common stocks	28,656,000	22,263,000
Mutual funds	14,625,000	10,665,000
Corporate bonds, held-to-maturity	10,324,000	24,701,000
Cascade Comprehensive Care, Inc.	6,792,000	7,872,000
Southern Oregon Linen Services, Inc.	656,000	588,000
Certificate of deposit	155,000	155,000
Cash equivalents	<u>-</u>	<u>5,458,000</u>
 \$ 201,745,000	 <u>\$ 201,745,000</u>	 <u>\$ 202,177,000</u>

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

	2024	2023
Investments	\$ 201,590,000	\$ 196,564,000
Assets limited as to use	<u>155,000</u>	<u>5,613,000</u>
 \$ 201,745,000	 <u>\$ 201,745,000</u>	 <u>\$ 202,177,000</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.

## **Sky Lakes Medical Center and Affiliates**

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

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**Cascade Comprehensive Care, Inc.** – The Medical Center owns 46% 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.

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

	<b>2024</b> (unaudited)	<b>2023</b> (unaudited)
Current assets	\$ 69,924,000	\$ 66,833,000
Noncurrent assets	<u>9,794,000</u>	<u>10,823,000</u>
 Total assets	 <u>\$ 79,718,000</u>	 <u>\$ 77,656,000</u>
 Current liabilities	 \$ 60,947,000	 \$ 52,207,000
Noncurrent liabilities	3,983,000	6,633,000
Equity	<u>14,788,000</u>	<u>18,816,000</u>
 Total liabilities and equity	 <u>\$ 79,718,000</u>	 <u>\$ 77,656,000</u>
 Operating revenue	 \$ 114,265,000	 \$ 129,747,000
Operating expenses	<u>114,450,000</u>	<u>130,330,000</u>
 Operating loss	 <u>\$ (185,000)</u>	 <u>\$ (583,000)</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.

## **Sky Lakes Medical Center and Affiliates**

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

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**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, 2024 and 2023.

*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 \$8,562,000 of corporate bonds that were previously considered held-to-maturity during 2024.

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

*Mutual 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.

*Certificate 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, 2024:

	Fair Value Measurements			
	Total Fair Value	Level One	Level Two	Level Three
Common stocks	\$ 28,656,000	\$ 28,656,000	\$ -	\$ -
Life insurance	140,537,000	-	140,537,000	-
Mutual funds	14,625,000	14,625,000	-	-
	<b><u>\$ 183,818,000</u></b>	<b><u>\$ 43,281,000</u></b>	<b><u>\$ 140,537,000</u></b>	<b><u>\$ -</u></b>

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, 2024 were approximately \$17,772,000. Assets limited to use in the amount of \$155,000 as of September 30, 2024 consists of a certificate of deposit.

## **Sky Lakes Medical Center and Affiliates**

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

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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 stocks	\$ 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 \$33,161,000. Assets limited to use in the amount of \$5,613,000 as of September 30, 2023 consistents of a certificate of deposit and cash equivalents.

#### **Note 5 – Property and Equipment**

A summary of property and equipment at September 30 follows:

	2024	2023
Buildings and fixed equipment	\$ 197,772,000	\$ 194,575,000
Moveable equipment	98,482,000	95,102,000
Equipment under finance lease obligations	7,280,000	9,396,000
Land improvements	7,003,000	6,814,000
Land	5,582,000	5,284,000
Leasehold improvements	<u>343,000</u>	<u>343,000</u>
	<u><u>316,462,000</u></u>	<u><u>311,514,000</u></u>
Less: Accumulated depreciation and amortization	<u>(195,069,000)</u>	<u>(185,813,000)</u>
	<u><u>121,393,000</u></u>	<u><u>125,701,000</u></u>
Construction in progress	<u>15,526,000</u>	<u>14,348,000</u>
Property and equipment, net	<u><u>\$ 136,919,000</u></u>	<u><u>\$ 140,049,000</u></u>

Depreciation expense for the years ended September 30, 2024 and 2023 was \$12,025,000 and \$11,186,000, respectively. Amortization expense related to leased assets for the years ended September 30, 2024 and 2023 was \$627,000 and \$927,000, respectively.

## **Sky Lakes Medical Center and Affiliates**

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

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#### **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 and is included in other revenue on the consolidated statements of operations. The lease value of Plum Ridge Care Center at September 30, 2024 and 2023 was approximately \$899,000 and \$955,000, respectively, and is included in deferred revenue 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 and is included in other revenue on the consolidated statements of operations. The deferred rental revenue of Plum Ridge Care Center was approximately \$2,173,000 and \$2,207,000 at September 30, 2024 and 2023, 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 \$3,635,000 and \$3,716,000 at September 30, 2024 and 2023, 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**

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

	<b>2024</b>	<b>2023</b>
<b>Right-of-use assets:</b>		
Finance leases, net	\$ 3,711,000	\$ 4,164,000
Operating leases	<u>2,637,000</u>	<u>3,422,000</u>
Total right-of-use assets	<u><u>\$ 6,348,000</u></u>	<u><u>\$ 7,586,000</u></u>
<b>Lease liabilities:</b>		
Finance leases	\$ 5,255,000	\$ 5,616,000
Operating leases	<u>2,774,000</u>	<u>3,453,000</u>
Total lease liabilities	<u><u>\$ 8,029,000</u></u>	<u><u>\$ 9,069,000</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 \$3,569,000 and \$5,681,000 as of September 30, 2024 and 2023, respectively.

Lease cost consists of the following for the year ended September 30, 2024 and 2023:

	<b>2024</b>	<b>2023</b>
<b>Finance lease cost:</b>		
Amortization of right-of-use assets	\$ 580,000	\$ 477,000
Interest on lease liabilities	243,000	399,000
<b>Operating lease cost:</b>		
Lease expense	<u>806,000</u>	<u>497,000</u>
Total lease cost	<u><u>\$ 1,629,000</u></u>	<u><u>\$ 1,373,000</u></u>

**Sky Lakes Medical Center and Affiliates**  
**Notes to Consolidated Financial Statements**

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The future maturities of lease liabilities as of September 30, 2024, are as follows:

	<u>Finance Leases</u>	<u>Operating Leases</u>
2025	\$ 754,000	\$ 814,000
2026	740,000	821,000
2027	740,000	747,000
2028	740,000	481,000
2029	737,000	102,000
Thereafter	<u>2,975,000</u>	<u>-</u>
 Total lease payments	6,686,000	2,965,000
 Amounts representing interest	<u>(1,431,000)</u>	<u>(191,000)</u>
 Present value of minimum lease payments	5,255,000	2,774,000
 Amount due within one year	<u>(395,000)</u>	<u>(728,000)</u>
 Amount due after one year	<u>\$ 4,860,000</u>	<u>\$ 2,046,000</u>

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

	<u>2024</u>	<u>2023</u>
 Weighted average remaining lease term:		
Finance leases	11.38 years	11.96 years
Operating leases	3.76 years	4.47 years
 Weighted average discount rate		
Finance leases	3.51%	6.87%
Operating leases	3.51%	4.72%

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

	<u>2024</u>	<u>2023</u>
 Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating lease liabilities	\$ 790,000	\$ 466,000
Finance cash flows from finance lease liabilities	\$ 824,000	\$ 424,000
Right-of-use assets obtained in exchange for finance lease liabilities	\$ 26,000	\$ 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

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#### Note 8 – Long-Term Debt

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

	2024	2023
Series 2022 Bonds with an interest rate of 3.51% and mature in varying amounts through 2031.	\$ 8,990,000	\$ 10,105,000
Series 2016 Bonds with interest rates from 2% to 5% and mature in varying amounts through 2046, net of premiums of \$4,234,000 and \$4,426,000 at September 30, 2024 and 2023, respectively.	47,529,000	49,446,000
Bank of America Loan with a fixed interest rate of 3.9%, due and payable July 2025.	1,004,000	2,166,000
Bank of America Loan with a fixed interest rate of 2.7%, due and payable September 2026.	1,526,000	2,258,000
Bank of America Loan with a fixed interest rate of 3.7%, due and payable May 2029.	<u>2,341,000</u>	<u>2,793,000</u>
Total long-term debt	61,390,000	66,768,000
Less deferred financing costs, premiums, and discounts	(844,000)	(903,000)
Less current portion	<u>(5,055,000)</u>	<u>(5,187,000)</u>
Long-term debt, net of deferred financing costs and current portion	<u>\$ 55,491,000</u>	<u>\$ 60,678,000</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. The 2022 Bonds are secured by a Deed of Trust on a portion of the Medical Center campus, including the main hospital facility.

**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. The final payment will be in 2046. 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.

## **Sky Lakes Medical Center and Affiliates**

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

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**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.

The Medical Center must satisfy certain covenants as long as the bonds are outstanding. At September 30, 2024 and 2023, management is not aware of any violation of the covenants.

Scheduled future principal payments for all long-term debt, exclusive of unamortized premiums of \$4,234,000, for the years ending September 30 are as follows:

2025	\$ 5,055,000
2026	4,194,000
2027	3,559,000
2028	3,698,000
2029	3,684,000
Thereafter	<u>36,966,000</u>
	 <u>\$ 57,156,000</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.

On March 8, 2024, the Medical Center entered into a line of credit agreement with U.S. Bank in the amount of \$2,200,000. Interest payments of prime minus 1% are due monthly with the final interest and payment of principal due upon demand. At September 30, 2024, there was no outstanding balance on the line of credit and the interest rate was 6.75%.

#### **Note 9 – COVID Funding**

**Federal Emergency Management Agency (FEMA)** – Under the public health emergency, the Medical Center is eligible for reimbursement of certain expenditures from FEMA. During the years ended September 30, 2024 and 2023, \$13,129,000 and \$5,993,000, respectively, were obligated for reimbursement by FEMA. The obligated amounts are recorded as other revenue in the consolidated statements of operations and the outstanding balance of \$0 and \$4,800,000 as of September 30, 2024 and 2023, respectively, are included in other receivables in the consolidated balance sheets.

# Sky Lakes Medical Center and Affiliates

## Notes to Consolidated Financial Statements

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### **Note 10 – Net Assets with Donor Restrictions**

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

	2024	2023
Cancer fund	\$ 5,363,000	\$ 3,964,000
Cares fund	1,924,000	1,395,000
Other funds	<u>4,758,000</u>	<u>4,190,000</u>
 Total net assets with donor restrictions	 <u>\$ 12,045,000</u>	 <u>\$ 9,549,000</u>

### **Note 11 – Commitments and Contingencies**

#### **Operating leases**

*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 held for lease at September 30:

	2024	2023
Buildings and improvements	\$ 17,406,000	\$ 17,530,000
Less accumulated depreciation	<u>(8,087,000)</u>	<u>(7,791,000)</u>
 \$ 9,319,000	 <u>\$ 9,319,000</u>	 <u>\$ 9,739,000</u>

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

2025	\$ 76,000
2026	36,000
2027	6,000
2028	6,000
2029	<u>6,000</u>
 \$ 130,000	 <u>\$ 130,000</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.

# Sky Lakes Medical Center and Affiliates

## Notes to Consolidated Financial Statements

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### Collective bargaining agreement

Approximately 15.3% of the Medical Center's employees are covered by a collective bargaining agreement. These employees are members of one union.

### 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 \$25,590,000 and \$20,364,000 in Medicare reimbursement from Atrio Health Plans, Inc. for the years ended September 30, 2024 and 2023, respectively. As of September 30, 2024 and 2023, the Medical Center has accounts receivable from Atrio Health Plans, Inc. of \$5,780,000 and \$2,249,000, respectively.

*Southern Oregon Linen Services* – The Medical Center purchased laundry services of approximately \$580,000 and \$573,000 from Southern Oregon Linen Services for the years ended September 30, 2024 and 2023, respectively. As of September 30, 2024 and 2023, the Medical Center has a payable to Southern Oregon Linen Services of \$51,000 and \$47,000, respectively.

*Cascade Comprehensive Care, Inc.* – The Medical Center received approximately \$46,255,000 and \$44,407,000 in Medicaid reimbursements from Cascade Comprehensive Care, Inc. for the years ended September 30, 2024 and 2023, respectively. As of September 30, 2024 and 2023, the Medical Center has account receivable from Cascade Comprehensive Care, Inc. of \$4,652,000 and \$1,676,000, respectively, a risk/withhold receivable of \$7,895,000 and \$7,905,000, respectively and a quality metric receivable of \$1,607,000 and \$0, respectively.

### 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:

	2024	2023
Cash and cash equivalents	\$ 30,914,000	\$ 19,509,000
Patient accounts receivable, net	44,411,000	34,976,000
Other receivables	6,665,000	10,965,000
Risk pool withhold receivable	11,117,000	8,240,000
 Total	 \$ 93,107,000	 \$ 73,690,000

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.

# Sky Lakes Medical Center and Affiliates

## Notes to Consolidated Financial Statements

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### 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, 2024 are as follows:

	Program Activities	Supporting Activities		Total Expenses
	Healthcare Services	Management and General		
Salaries and benefits	\$ 148,196,000	\$ 21,494,000	\$ 169,690,000	
Purchased services	49,182,000	2,852,000	52,034,000	
Drugs	37,810,000	-	37,810,000	
Supplies	19,865,000	9,000	19,874,000	
Building and maintenance	5,020,000	15,383,000	20,403,000	
Depreciation and amortization	6,109,000	6,543,000	12,652,000	
Provider tax	16,887,000	-	16,887,000	
Physician fees	10,935,000	18,000	10,953,000	
Other	2,016,000	2,535,000	4,551,000	
Interest expense	6,000	2,732,000	2,738,000	
Insurance	1,196,000	1,991,000	3,187,000	
Minor equipment	837,000	511,000	1,348,000	
Professional fees	177,000	1,731,000	1,908,000	
Rentals and lease expense	330,000	110,000	440,000	
 Total	 \$ 298,566,000	 \$ 55,909,000	 \$ 354,475,000	

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	405,000	202,000	607,000	
 Total	 \$ 274,931,000	 \$ 53,101,000	 \$ 328,032,000	

# **Sky Lakes Medical Center and Affiliates**

## **Notes to Consolidated Financial Statements**

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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 \$7,084,000 and \$6,328,000 for the years ended September 30, 2024 and 2023, respectively.

#### **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 \$230,000 and \$213,000 to the plan on behalf of employees for the years ended September 30, 2024 and 2023, 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 \$71,000 and \$58,000 for the years ended September 30, 2024 and 2023, 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, 2024**

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<b>ASSETS</b>								Eliminating Entries	Consolidated
	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Klamath Medical Business Center	KW Campus	Total				
<b>CURRENT ASSETS</b>									
Cash and cash equivalents	\$ 28,726,000	\$ 884,000	\$ 1,038,000	\$ 266,000	\$ 30,914,000	\$ -	\$ 30,914,000		
Patient accounts receivable, net	44,411,000	-	-	-	44,411,000	-	44,411,000		
Other receivables	10,755,000	-	-	-	10,755,000	(4,090,000)	6,665,000		
Risk pool withhold receivable	11,117,000	-	-	-	11,117,000	-	11,117,000		
Supplies inventory	10,328,000	-	-	-	10,328,000	-	10,328,000		
Prepaid expenses	6,410,000	-	-	-	6,410,000	-	6,410,000		
Other current assets	-	750,000	-	-	750,000	-	750,000		
Total current assets	<u>111,747,000</u>	<u>1,634,000</u>	<u>1,038,000</u>	<u>266,000</u>	<u>114,685,000</u>	<u>(4,090,000)</u>	<u>110,595,000</u>		
ASSETS LIMITED AS TO USE	155,000	-	-	-	155,000	-	155,000		
PROPERTY AND EQUIPMENT, net	135,059,000	-	574,000	1,286,000	136,919,000	-	136,919,000		
OPERATING LEASE RIGHT-OF-USE ASSETS	2,637,000	-	-	-	2,637,000	-	2,637,000		
INVESTMENTS	174,718,000	28,831,000	-	-	203,549,000	(1,959,000)	201,590,000		
DEFERRED REVENUE	<u>899,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>899,000</u>	<u>-</u>	<u>899,000</u>		
Total assets	<u><u>\$ 425,215,000</u></u>	<u><u>\$ 30,465,000</u></u>	<u><u>\$ 1,612,000</u></u>	<u><u>\$ 1,552,000</u></u>	<u><u>\$ 458,844,000</u></u>	<u><u>\$ (6,049,000)</u></u>	<u><u>\$ 452,795,000</u></u>		

**Sky Lakes Medical Center and Affiliates**  
**Consolidating Balance Sheet (unaudited)**  
**September 30, 2024**

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<b>LIABILITIES AND NET ASSETS</b>							
	<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>
<b>CURRENT LIABILITIES</b>							
Accounts payable	\$ 10,527,000	\$ 574,000	\$ -	\$ 11,101,000	\$ -	\$ 11,101,000	
Accrued payroll	8,566,000	-	-	8,566,000	-	8,566,000	
Accrued compensated absences	7,830,000	-	-	7,830,000	-	7,830,000	
Accrued interest payable	226,000	-	-	226,000	-	226,000	
Other accrued expenses	23,535,000	-	-	23,535,000	(4,090,000)	19,445,000	
Estimated third-party payor settlements	1,752,000	-	-	1,752,000	-	1,752,000	
Long-term debt, current portion	5,055,000	-	-	5,055,000	-	5,055,000	
Operating lease obligations, current portion	728,000	-	-	728,000	-	728,000	
Finance lease obligations, current portion	395,000	-	-	395,000	-	395,000	
Total current liabilities	<u>58,614,000</u>	<u>574,000</u>	<u>-</u>	<u>59,188,000</u>	<u>(4,090,000)</u>	<u>55,098,000</u>	
<b>LONG-TERM LIABILITIES</b>							
Long-term debt, net of current portion, deferred financing costs, premium, and discount	55,491,000	-	-	55,491,000	-	55,491,000	
Operating lease obligations, net of current portion	2,046,000	-	-	2,046,000	-	2,046,000	
Finance lease obligations, net of current portion	4,860,000	-	-	4,860,000	-	4,860,000	
Other long-term liabilities	10,691,000	-	-	10,691,000	-	10,691,000	
Total long-term liabilities	<u>73,088,000</u>	<u>-</u>	<u>-</u>	<u>73,088,000</u>	<u>-</u>	<u>73,088,000</u>	
Total liabilities	<u>131,702,000</u>	<u>574,000</u>	<u>-</u>	<u>132,276,000</u>	<u>(4,090,000)</u>	<u>128,186,000</u>	
<b>NET ASSETS</b>							
Without donor restrictions – Sky Lakes Medical Center	293,513,000	17,846,000	1,612,000	1,552,000	314,523,000	(2,939,000)	311,584,000
Without donor restrictions – non-controlling interest	-	-	-	-	-	980,000	980,000
With donor restrictions	-	12,045,000	-	-	12,045,000	-	12,045,000
Total net assets	<u>293,513,000</u>	<u>29,891,000</u>	<u>1,612,000</u>	<u>1,552,000</u>	<u>326,568,000</u>	<u>(1,959,000)</u>	<u>324,609,000</u>
Total liabilities and net assets	<u>\$ 425,215,000</u>	<u>\$ 30,465,000</u>	<u>\$ 1,612,000</u>	<u>\$ 1,552,000</u>	<u>\$ 458,844,000</u>	<u>\$ (6,049,000)</u>	<u>\$ 452,795,000</u>

**Sky Lakes Medical Center and Affiliates**  
**Consolidating Statement of Operations (unaudited)**  
**Year Ended September 30, 2024**

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	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Klamath Medical Business Center	KW Campus	Total	Eliminating Entries	Consolidated
<b>REVENUES</b>							
Patient service revenue, net	\$ 333,060,000	\$ -	\$ -	\$ -	\$ 333,060,000	\$ -	\$ 333,060,000
Other revenue	24,307,000	4,000	279,000	-	24,590,000	(1,086,000)	23,504,000
<b>Total revenues</b>	<b>357,367,000</b>	<b>4,000</b>	<b>279,000</b>	<b>-</b>	<b>357,650,000</b>	<b>(1,086,000)</b>	<b>356,564,000</b>
<b>EXPENSES</b>							
Salaries and benefits	169,498,000	192,000	-	-	169,690,000	-	169,690,000
Purchased services	52,029,000	-	3,000	4,000	52,036,000	(2,000)	52,034,000
Drugs	37,810,000	-	-	-	37,810,000	-	37,810,000
Supplies	20,838,000	-	-	-	20,838,000	(964,000)	19,874,000
Building and maintenance	20,324,000	-	83,000	-	20,407,000	(4,000)	20,403,000
Depreciation and amortization	12,600,000	-	52,000	-	12,652,000	-	12,652,000
Provider tax	16,887,000	-	-	-	16,887,000	-	16,887,000
Physician fees	10,962,000	-	-	-	10,962,000	(9,000)	10,953,000
Other	4,597,000	29,000	23,000	-	4,649,000	(98,000)	4,551,000
Interest expense	2,738,000	-	-	-	2,738,000	-	2,738,000
Insurance	3,177,000	-	10,000	-	3,187,000	-	3,187,000
Minor equipment	1,348,000	-	-	-	1,348,000	-	1,348,000
Professional fees	1,907,000	-	9,000	-	1,916,000	(8,000)	1,908,000
Rentals and lease expense	440,000	-	-	-	440,000	-	440,000
<b>Total expenses</b>	<b>355,155,000</b>	<b>221,000</b>	<b>180,000</b>	<b>4,000</b>	<b>355,560,000</b>	<b>(1,085,000)</b>	<b>354,475,000</b>
<b>OPERATING INCOME (LOSS)</b>	<b>2,212,000</b>	<b>(217,000)</b>	<b>99,000</b>	<b>(4,000)</b>	<b>2,090,000</b>	<b>(1,000)</b>	<b>2,089,000</b>
<b>OTHER INCOME (EXPENSE)</b>							
Investment income	3,423,000	491,000	-	-	3,914,000	-	3,914,000
Change in unrealized gains and loss on investment securities	-	4,393,000	-	-	4,393,000	-	4,393,000
Contributions	55,000	-	-	-	55,000	(55,000)	-
Net assets released from restrictions	-	750,000	-	-	750,000	-	750,000
Other non-operating expense	(201,000)	(1,976,000)	-	(96,000)	(2,273,000)	(87,000)	(2,360,000)
<b>Total other income, net</b>	<b>3,277,000</b>	<b>3,658,000</b>	<b>-</b>	<b>(96,000)</b>	<b>6,839,000</b>	<b>(142,000)</b>	<b>6,697,000</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	<b>\$ 5,489,000</b>	<b>\$ 3,441,000</b>	<b>\$ 99,000</b>	<b>\$ (100,000)</b>	<b>\$ 8,929,000</b>	<b>\$ (143,000)</b>	<b>\$ 8,786,000</b>

**Sky Lakes Medical Center and Affiliates**  
**Consolidating Statement of Changes in Net Assets (unaudited)**  
**Year Ended September 30, 2024**

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	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Klamath Medical Business Center	KW Campus	Total	Eliminating Entries	Consolidated
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>							
Excess (deficiency) of revenues over expenses	\$ 5,489,000	\$ 3,441,000	\$ 99,000	\$ (100,000)	\$ 8,929,000	\$ (143,000)	\$ 8,786,000
Contributions	-	-	11,000	-	11,000	-	11,000
Net change in unrealized gains and losses on life insurance	<u>7,033,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,033,000</u>	<u>-</u>	<u>7,033,000</u>
Increase in net assets without donor restrictions	<u>12,522,000</u>	<u>3,441,000</u>	<u>110,000</u>	<u>(100,000)</u>	<u>15,973,000</u>	<u>(143,000)</u>	<u>15,830,000</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>							
Contributions	-	586,000	-	-	586,000	-	586,000
Net change in unrealized gains and losses on investments	-	2,386,000	-	-	2,386,000	-	2,386,000
Investment income	-	274,000	-	-	274,000	-	274,000
Net assets released from restrictions	-	<u>(750,000)</u>	<u>-</u>	<u>-</u>	<u>(750,000)</u>	<u>-</u>	<u>(750,000)</u>
Increase in net assets with donor restrictions	<u>-</u>	<u>2,496,000</u>	<u>-</u>	<u>-</u>	<u>2,496,000</u>	<u>-</u>	<u>2,496,000</u>
CHANGE IN NET ASSETS	<u>12,522,000</u>	<u>5,937,000</u>	<u>110,000</u>	<u>(100,000)</u>	<u>18,469,000</u>	<u>(143,000)</u>	<u>18,326,000</u>
NET ASSETS, beginning 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>
NET ASSETS, end of year	<u><u>\$ 293,513,000</u></u>	<u><u>\$ 29,891,000</u></u>	<u><u>\$ 1,612,000</u></u>	<u><u>\$ 1,552,000</u></u>	<u><u>\$ 326,568,000</u></u>	<u><u>\$ (1,959,000)</u></u>	<u><u>\$ 324,609,000</u></u>

**Sky Lakes Medical Center and Affiliates**  
**Obligated Group – Combining Balance Sheet (unaudited)**  
**September 30, 2024**

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<b>ASSETS</b>							Total Obligated Group
	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Total	Eliminating Entries			
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	\$ 28,726,000	\$ 884,000	\$ 29,610,000	\$ -	\$ -	\$ 29,610,000	
Patient accounts receivable, net	44,411,000	-	44,411,000			44,411,000	
Other receivables	10,755,000	-	10,755,000	(4,090,000)		6,665,000	
Risk pool withhold receivable	11,117,000	-	11,117,000			11,117,000	
Supplies inventory	10,328,000	-	10,328,000			10,328,000	
Prepaid expenses	6,410,000	-	6,410,000			6,410,000	
Other current assets	-	750,000	750,000			750,000	
 Total current assets	 111,747,000	 1,634,000	 113,381,000	 (4,090,000)		 109,291,000	
ASSETS LIMITED AS TO USE	155,000	-	155,000			155,000	
PROPERTY AND EQUIPMENT, net	135,059,000	-	135,059,000			135,059,000	
OPERATING LEASE RIGHT-OF-USE ASSETS	2,637,000	-	2,637,000			2,637,000	
INVESTMENTS	174,718,000	28,831,000	203,549,000	(1,959,000)		201,590,000	
DEFERRED REVENUE	899,000	-	899,000			899,000	
 Total assets	 \$ 425,215,000	 \$ 30,465,000	 \$ 455,680,000	 \$ (6,049,000)		 \$ 449,631,000	

**Sky Lakes Medical Center and Affiliates**  
**Obligated Group – Combining Balance Sheet (unaudited)**  
**September 30, 2024**

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**LIABILITIES AND NET ASSETS**

	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Total	Eliminating Entries	Total Obligated Group
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 10,527,000	\$ 574,000	\$ 11,101,000	\$ -	\$ 11,101,000
Accrued payroll	8,566,000	-	8,566,000	-	8,566,000
Accrued compensated absences	7,830,000	-	7,830,000	-	7,830,000
Accrued interest payable	226,000	-	226,000	-	226,000
Other accrued expenses	23,535,000	-	23,535,000	(4,090,000)	19,445,000
Estimated third-party payor settlements	1,752,000	-	1,752,000	-	1,752,000
Long-term debt, current portion	5,055,000	-	5,055,000	-	5,055,000
Operating lease obligations, current portion	728,000	-	728,000	-	728,000
Finance lease obligations, current portion	395,000	-	395,000	-	395,000
 Total current liabilities	 58,614,000	 574,000	 59,188,000	 (4,090,000)	 55,098,000
<b>LONG-TERM LIABILITIES</b>					
Long-term debt, net of current portion, deferred financing costs, premium, and discount	55,491,000	-	55,491,000	-	55,491,000
Operating lease obligations, net of current portion	2,046,000	-	2,046,000	-	2,046,000
Finance lease obligations, net of current portion	4,860,000	-	4,860,000	-	4,860,000
Other long-term liabilities	10,691,000	-	10,691,000	-	10,691,000
 Total long-term liabilities	 73,088,000	 -	 73,088,000	 -	 73,088,000
 Total liabilities	 131,702,000	 574,000	 132,276,000	 (4,090,000)	 128,186,000
<b>NET ASSETS</b>					
Without donor restrictions – Sky Lakes Medical Center	293,513,000	17,846,000	311,359,000	(1,959,000)	309,400,000
With donor restrictions	-	12,045,000	12,045,000	-	12,045,000
 Total net assets	 293,513,000	 29,891,000	 323,404,000	 (1,959,000)	 321,445,000
 Total liabilities and net assets	 \$ 425,215,000	 \$ 30,465,000	 \$ 455,680,000	 \$ (6,049,000)	 \$ 449,631,000

**Sky Lakes Medical Center and Affiliates**  
**Obligated Group – Combining Statement of Operations (unaudited)**  
**Year Ended September 30, 2024**

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	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Total	Eliminating Entries	Total Obligated Group
<b>REVENUES</b>					
Patient service revenue, net	\$ 333,060,000	\$ -	\$ 333,060,000	\$ -	\$ 333,060,000
Other revenue	24,307,000	4,000	24,311,000	(1,086,000)	23,225,000
<b>Total revenues</b>	<b>357,367,000</b>	<b>4,000</b>	<b>357,371,000</b>	<b>(1,086,000)</b>	<b>356,285,000</b>
<b>EXPENSES</b>					
Salaries and benefits	169,498,000	192,000	169,690,000	-	169,690,000
Purchased services	52,029,000	-	52,029,000	(2,000)	52,027,000
Drugs	37,810,000	-	37,810,000	-	37,810,000
Supplies	20,838,000	-	20,838,000	(964,000)	19,874,000
Building and maintenance	20,324,000	-	20,324,000	(4,000)	20,320,000
Depreciation and amortization	12,600,000	-	12,600,000	-	12,600,000
Provider tax	16,887,000	-	16,887,000	-	16,887,000
Physician fees	10,962,000	-	10,962,000	(9,000)	10,953,000
Other	4,597,000	29,000	4,626,000	(98,000)	4,528,000
Interest expense	2,738,000	-	2,738,000	-	2,738,000
Insurance	3,177,000	-	3,177,000	-	3,177,000
Minor equipment	1,348,000	-	1,348,000	-	1,348,000
Professional fees	1,907,000	-	1,907,000	(8,000)	1,899,000
Rentals and lease expense	440,000	-	440,000	-	440,000
<b>Total expenses</b>	<b>355,155,000</b>	<b>221,000</b>	<b>355,376,000</b>	<b>(1,085,000)</b>	<b>354,291,000</b>
<b>OPERATING INCOME (LOSS)</b>	<b>2,212,000</b>	<b>(217,000)</b>	<b>1,995,000</b>	<b>(1,000)</b>	<b>1,994,000</b>
<b>OTHER INCOME (EXPENSE)</b>					
Investment income	3,423,000	491,000	3,914,000	-	3,914,000
Change in unrealized gains and losses on investment securities	-	4,393,000	4,393,000	-	4,393,000
Contributions	55,000	-	55,000	(55,000)	-
Net assets released from restrictions	-	750,000	750,000	-	750,000
Other non-operating expense	(201,000)	(1,976,000)	(2,177,000)	(87,000)	(2,264,000)
<b>Total other income, net</b>	<b>3,277,000</b>	<b>3,658,000</b>	<b>6,935,000</b>	<b>(142,000)</b>	<b>6,793,000</b>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>\$ 5,489,000</b>	<b>\$ 3,441,000</b>	<b>\$ 8,930,000</b>	<b>\$ (143,000)</b>	<b>\$ 8,787,000</b>

**Sky Lakes Medical Center and Affiliates**  
**Obligated Group – Combining Statement of Changes in Net Assets (unaudited)**  
**Year Ended September 30, 2024**

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	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Total	Eliminating Entries	Total Obligated Group
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>					
Excess of revenues over expenses	\$ 5,489,000	\$ 3,441,000	\$ 8,930,000	\$ (143,000)	\$ 8,787,000
Net change in unrealized gains and losses on life insurance	7,033,000	-	7,033,000	-	7,033,000
Increase in net assets without donor restrictions	12,522,000	3,441,000	15,963,000	(143,000)	15,820,000
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>					
Contributions	-	586,000	586,000	-	586,000
Net change in unrealized gains and losses on investments	-	2,386,000	2,386,000	-	2,386,000
Investment income	-	274,000	274,000	-	274,000
Net assets released from restrictions	-	(750,000)	(750,000)	-	(750,000)
Increase in net assets with donor restrictions	-	2,496,000	2,496,000	-	2,496,000
<b>CHANGE IN NET ASSETS</b>	<b>12,522,000</b>	<b>5,937,000</b>	<b>18,459,000</b>	<b>(143,000)</b>	<b>18,316,000</b>
<b>NET ASSETS, beginning of year</b>	<b>280,991,000</b>	<b>23,954,000</b>	<b>304,945,000</b>	<b>(1,816,000)</b>	<b>303,129,000</b>
<b>NET ASSETS, end of year</b>	<b>\$ 293,513,000</b>	<b>\$ 29,891,000</b>	<b>\$ 323,404,000</b>	<b>\$ (1,959,000)</b>	<b>\$ 321,445,000</b>



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