



Report of Independent Auditors  
and Consolidated Financial Statements  
with Supplementary Information

**Santiam Memorial Hospital and Subsidiaries dba  
Santiam Hospital**

December 31, 2023 and 2022



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# Table of Contents

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	Page
<b>Report of Independent Auditors</b>	1
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets	5
Consolidated Statements of Operations and Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	9
<b>Supplementary Information</b>	
Summary of Operations (Unaudited)	32
Gross Patient Care Service Revenue (Unaudited)	33
Operating Departments' Expenses (Unaudited)	34
Service Departments' Expenses and Administrative and General Expenses (Unaudited)	35
<b>Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	36
<b>Report of Independent Auditors on Compliance for the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance</b>	38
Schedule of Expenditures of Federal Awards	41
Notes to Schedule of Expenditures of Federal Awards	42
Schedule of Findings and Questioned Costs	43

## **Report of Independent Auditors**

The Board of Directors  
Santiam Memorial Hospital, dba Santiam Hospital

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the consolidated financial statements of Santiam Memorial Hospital (an Oregon nonprofit corporation) and its subsidiaries, collectively doing business as (dba) "Santiam Hospital" (the Hospital), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and 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 Santiam Memorial Hospital and its subsidiaries, dba Santiam Hospital, as of December 31, 2023 and 2022, and the results of their operations 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 audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Santiam Memorial Hospital and its subsidiaries, dba Santiam Hospital, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***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 Hospital's ability to continue as a going concern for one year after the date that the financial statements are available to be 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 Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules of summary of operations, gross patient care service revenue, operating departments' expenses, service departments' expenses and service departments' expenses and administrative and general expenses, and the schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2024, on our consideration of Santiam Memorial Hospital and its subsidiaries, dba Santiam Hospital'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 Santiam Memorial Hospital and its subsidiaries, dba Santiam Hospital'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 Santiam Memorial Hospital and its subsidiaries, dba Santiam Hospital's internal control over financial reporting and compliance.



Portland, Oregon  
May 23, 2024

## **Consolidated Financial Statements**

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**Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**  
**Consolidated Balance Sheets**  
**December 31, 2023 and 2022**

	2023	2022
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 12,690,902	\$ 22,594,124
Assets limited as to use, current portion	176,390	209,058
Patient accounts receivable	15,723,855	14,792,792
Supplies inventory	2,264,740	2,254,029
Prepaid expenses and other current assets	1,354,839	3,418,607
Total current assets	32,210,726	43,268,610
ASSETS LIMITED AS TO USE, net of current portion	4,695,943	5,124,507
LONG-TERM INVESTMENTS	2,624,452	2,140,332
PROPERTY AND EQUIPMENT, net	41,616,944	35,725,649
FINANCE LEASE RIGHT-OF-USE ASSETS	2,310,929	-
Total assets	<u>\$ 83,458,994</u>	<u>\$ 86,259,098</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 3,647,867	\$ 3,956,788
Accrued liabilities		
Payroll, payroll taxes, and withholdings	1,088,315	1,251,568
Paid time off	1,642,171	1,610,545
Other	2,428,185	2,476,828
Estimated third-party payor settlements payable, net	580,956	537,350
Government refundable advances	1,065,869	296,560
Current portion of long-term debt	3,221,563	1,540,227
Current portion of finance lease liabilities	338,671	-
Total current liabilities	14,013,597	11,669,866
LONG-TERM DEBT, net of current portion	20,875,576	22,828,141
FINANCE LEASE LIABILITIES, net of current portion	2,276,017	-
OTHER NONCURRENT LIABILITIES	1,545,744	1,312,728
Total liabilities	38,710,934	35,810,735
<b>NET ASSETS</b>		
Without donor restrictions	40,672,139	46,969,325
With donor restrictions	4,075,921	3,479,038
Total net assets	44,748,060	50,448,363
Total liabilities and net assets	<u>\$ 83,458,994</u>	<u>\$ 86,259,098</u>

See accompanying notes.

**Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**Years Ended December 31, 2023 and 2022**

	2023	2022
REVENUE		
Net patient care service revenue	\$ 94,232,096	\$ 88,465,723
Government grant revenue	3,833,854	4,314,629
Other revenue	4,321,763	3,201,770
Net assets released from restrictions – satisfaction of program restrictions	1,836,289	1,363,587
Total revenue	104,224,002	97,345,709
EXPENSES		
Salaries and benefits	66,081,325	58,040,934
Supplies	15,277,763	13,071,040
Purchased services	10,615,652	7,863,182
Provider tax expense	3,753,438	3,876,578
Depreciation and amortization	3,542,281	3,163,708
Community relations	1,203,995	1,115,668
Insurance	650,135	904,810
Interest	1,229,455	871,409
Repairs and maintenance	1,070,283	813,635
Utilities	650,617	468,728
Other	7,752,864	7,072,272
Total expenses	111,827,808	97,261,964
OPERATING (LOSS) INCOME	(7,603,806)	83,745
NONOPERATING INCOME (LOSS)		
Investment income (loss), net	713,910	(125,903)
Other	592,710	254,688
Total other income, net	1,306,620	128,785
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(6,297,186)	212,530
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	2,433,172	3,025,091
Net assets released from donor restrictions – satisfaction of program restrictions	(1,836,289)	(1,363,587)
Increase in net assets with donor restrictions	596,883	1,661,504
TOTAL CHANGE IN NET ASSETS	(5,700,303)	1,874,034
NET ASSETS, beginning of year	50,448,363	48,574,329
NET ASSETS, end of year	\$ 44,748,060	\$ 50,448,363

See accompanying notes.



**Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Decrease) increase in net assets	\$ (5,700,303)	\$ 1,874,034
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities		
Depreciation	3,081,274	3,037,687
Amortization and accretion of debt obligation – net	120,308	126,021
Amortization of finance lease right-of-use assets	340,699	-
Net realized and unrealized loss (gain) on investments	159,533	(279,999)
Gain on disposals of property and equipment, net	-	(57,700)
Gain on sale of investments	(22,627)	-
Restricted contributions	(1,452,358)	(2,894,708)
Changes in certain operating assets and liabilities		
Patient accounts receivable	(931,063)	(3,185,669)
Supplies inventory	(10,711)	(455,526)
Prepaid expenses and other current assets	2,063,768	(223,755)
Accounts payable	(308,921)	2,206,416
Accrued liabilities	(180,270)	1,001,668
Estimated third-party payor settlements payable, net	43,606	(81,358)
Government refundable advances	769,309	(255,526)
Other noncurrent liabilities	233,016	360,464
Net cash (used in) provided by operating activities	<u>(1,794,740)</u>	<u>1,172,049</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale/redemption of investments	1,239,267	4,130,181
Purchase of investments	(1,860,293)	(3,661,413)
Proceeds from disposals of property and equipment	-	57,700
Purchases of property and equipment – net	<u>(8,972,569)</u>	<u>(7,183,251)</u>
Net cash used in investing activities	<u>(9,593,595)</u>	<u>(6,656,783)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from issuance of long-term debt	1,148,688	5,000,000
Principal paid on long-term debt obligations	(1,540,225)	(969,097)
Repayment of finance lease obligations	(36,940)	-
Financing costs	-	(84,860)
Proceeds from restricted contributions	<u>1,452,358</u>	<u>2,894,708</u>
Net cash provided by financing activities	<u>1,023,881</u>	<u>6,840,751</u>

See accompanying notes.

**Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**  
**Consolidated Statements of Cash Flows**  
**December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(10,364,454)	1,356,017
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	<u>27,927,689</u>	<u>26,571,672</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	<u><u>\$ 17,563,235</u></u>	<u><u>\$ 27,927,689</u></u>

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the consolidated balance sheets to the amounts reports in the consolidated statements of cash flows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 12,690,902	\$ 22,594,124
Restricted cash included in assets limited as to use		
Internally designated for capital acquisitions	469,311	193,611
Donor restricted amounts principally for Santiam Canyon Wildfire Relief Fund	253,268	1,129,888
Restricted amounts related to a mortgage note payable agreement	<u>4,149,754</u>	<u>4,010,066</u>
	<u><u>\$ 17,563,235</u></u>	<u><u>\$ 27,927,689</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS</b>		
Right-of-use assets obtained in exchange for finance lease liabilities	<u><u>\$ 2,509,278</u></u>	<u><u>\$ -</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u><u>\$ 1,207,494</u></u>	<u><u>\$ 874,923</u></u>

See accompanying notes.

# **Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**

## **Notes to Consolidated Financial Statements**

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

**Business, organization, and principles of consolidation** – Santiam Memorial Hospital is an Oregon nonprofit corporation located in Stayton, Oregon. Santiam Memorial Hospital provides inpatient, outpatient, and emergency health care services primarily to residents in the local geographic area. Santiam Medical Group, LLC (the Medical Group) provides outpatient medical services at Santiam Memorial Hospital's various clinic locations. Santiam Memorial Hospital is the 100% owner of the Medical Group. In March 2022, Santiam Hospital and Clinics Foundation (the Foundation) was formed – with Santiam Memorial Hospital as its sole member – to promote, develop, and raise funds for the Hospital.

Santiam Memorial Hospital, the Medical Group and the Foundation are collectively doing business as "Santiam Hospital" (the Hospital).

The accompanying consolidated financial statements include the accounts and transactions of the Hospital. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Method of accounting** – The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) using the accrual method of accounting which recognizes revenue, income, and gains when earned and expenses and losses when incurred. The preparation of consolidated financial statements in accordance with GAAP requires management of the Hospital (Management) to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue, income, gains, expenses, and losses during the reporting period. Actual results could differ from those estimates.

**Patient care service revenue** – The Hospital recognizes patient care service revenue in the period in which performance obligations under contracts are satisfied by transferring services to patients. Patient care service revenue is recognized in the amounts to which the Hospital expects to be entitled, which are the transaction prices allocated to the distinct services. Patient care service revenue primarily consists of revenue for patients covered by Medicare, Oregon Health Plan (OHP) and Medicaid, and commercial insurance, as well as revenue for certain uninsured patients under charity care programs.

The Hospital reports patient care service revenue at the amounts that reflect the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including government programs and commercial insurance), and others, and they include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Hospital bills patients and third-party payors several days after the services are performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied.

## **Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**

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

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Performance obligations are determined based on the nature of the services provided and may be satisfied over time or at a point in time. The Hospital recognizes revenue for performance obligations satisfied over time based on the actual charges incurred in relation to total expected charges.

Management has determined that this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services. Performance obligations from admission are measured to the point when there are no further services required for the patient, which is generally at the time of discharge. For performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, revenue is recognized when (1) services are provided, and (2) the patient does not require additional services.

All of the Hospital's patient service performance obligations relate to contracts with a duration of less than one year. Accordingly, the Hospital has elected to apply the optional exemption provided under GAAP, and, therefore, the Hospital 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 Hospital's unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days – or, in rare instances, within weeks – of the end of the reporting period.

The transaction price is based on gross charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's charity care policy, and implicit price concessions provided primarily to uninsured and underinsured patients. Management has determined the estimate of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience. Management has also determined the estimate of implicit price concessions based on historical collection experience with these patient classes using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The consolidated financial statement effects of using this practical expedient are not materially different from an individual contract approach.

A significant portion of the Hospital's services is provided to Medicare, Oregon Health Plan (OHP), and Medicaid patients under contractual arrangements. Inpatient acute care services rendered by the Hospital to Medicare program beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors (i.e., "Medicare severity-diagnosis related groups" or "MS-DRGs"). Such payments include a capital cost component and may be greater or less than the actual charges for services. Inpatient non-acute care services related to Medicare beneficiaries are reimbursed under a cost reimbursement methodology. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. In addition, certain outpatient services related to Medicare beneficiaries are reimbursed based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after audits of the Hospital's annual cost reports by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited and final settled by the Medicare fiscal intermediary through December 31, 2018. As of December 31, 2023 and 2022, the Hospital recorded approximately \$102,000 and \$53,000 receivable, respectively, from Medicare related to annual cost reports.

## **Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**

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

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Services rendered to OHP beneficiaries are primarily reimbursed at discounts from standard charges or based on fee schedules. Certain services rendered to OHP beneficiaries are partially reimbursed under a capitation agreement. During each of the years ended December 31, 2023 and 2022, the Hospital received approximately \$1,400,000 in capitation payments related to OHP beneficiaries, which are included in patient care service revenue in the accompanying consolidated statements of operations. Services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Under this methodology, the Hospital is reimbursed at a tentative rate with final settlement determined after audits of the Hospital's annual cost reports by Medicaid. The Hospital's Medicaid cost reports have been audited and final settled by Medicaid through December 31, 2018. As of December 31, 2023 and 2022, the Hospital had recorded approximately \$683,000 and \$630,000 payable, respectively, to Medicaid related to annual cost reports.

The laws and regulations governing the Medicare, OHP, and Medicaid programs are extremely complex and subject to interpretation. In addition, the Recovery Audit Contractors program requires the evaluation of certain Medicare and Medicaid claims for propriety by third-party contractors. As a result, there is at least a reasonable possibility that recorded amounts for estimated third-party payor settlements will change by a material amount in the near-term.

Management has established a system and estimation process for recording Medicare, OHP, and Medicaid patient care service revenue and estimated cost report settlements. As a result, the Hospital records a receivable or payable to reflect the expected final settlements on cost reports. For filed cost reports, a receivable or payable is recorded based on those cost reports and subsequent activity, and a valuation allowance is recorded against those cost reports based on historical settlement trends. For periods for which a cost report is yet to be filed, a receivable or payable is recorded based on estimates of what Management expects to report on the filed cost reports, and a corresponding valuation allowance is recorded as previously described. Medicare cost reports generally must be filed within five months after the end of the annual cost reporting period. After a cost report is filed, the receivable (payable) and corresponding valuation allowance may need to be adjusted.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and historical settlement trends, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, when new information becomes available) or as years are settled or are no longer subject to such audits, reviews, and investigations.

## **Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**

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

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The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations to provide medical services to subscribing participants. Revenue under these arrangements is based primarily on prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates based on the types of services provided. This revenue is also subject to review and possible audit by the payors, which can take several years before they are completely resolved. The payors are billed for patient services on an individual patient basis. An individual patient's bill is subject to adjustment on a patient-by-patient basis in the ordinary course of business by the payors following their review and adjudication of each particular bill. Management estimates the discounts for contractual allowances utilizing billing data on an individual patient basis. At the end of each month, an estimate is recorded for expected reimbursement for patients of commercial and other insurance plans based on the applicable contract terms. Contractual allowance estimates are periodically reviewed for accuracy by taking into consideration known contract terms, as well as payment history. The estimation and review process enables Management to identify instances on a timely basis where such estimates need to be revised. Commercial insurance accounts, net of contractual allowances recorded, are further reduced to their net realizable value through implicit price concessions based on historical collection trends for these payors and other factors that affect the estimation process.

Generally, patients who are covered by third-party payors are responsible for related co-pays, co-insurance, and deductibles, which vary in amount. The Hospital also provides services to uninsured patients and offers uninsured patients a discount from standard charges. Management estimates the transaction price for patients with co-pays, co-insurance, and deductibles, and for those who are uninsured, based on historical collection experience and current market conditions. Under the Hospital's uninsured discount programs, the discount offered to certain uninsured patients is recognized as contractual allowance, which reduces patient care service revenue at the time that the self-pay accounts are recorded. The uninsured patient accounts, net of contractual allowances recorded, are further reduced to their net realizable value at the time that they are recorded through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process. There are various factors that can impact collection trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients; the volume of patients provided service in the emergency department; the increased burden of co-pays, co-insurance amounts, and deductibles to be made by patients with insurance; and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the estimation process. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient care service revenue in the period of the change.

The Hospital provides implicit price concessions, primarily to uninsured patients and patients with co-pays, co-insurance, and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and amounts that the Hospital expects to collect based on collection history with similar patients. For the years ended December 31, 2023 and 2022, the Hospital recorded approximately \$2,079,000 and \$1,843,000, respectively, of implicit price concessions as direct reductions of patient care service revenue.

## Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

### Notes to Consolidated Financial Statements

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Although outcomes vary, the Hospital's policy is to attempt to collect amounts due from patients – including co-pays, co-insurance, and deductibles due from patients with insurance – at the time of service while complying with all federal and state statutes and regulations, including, but not limited to, the *Emergency Medical Treatment and Active Labor Act* (EMTALA). Generally, as required by EMTALA, patients may not be denied emergency treatment due to inability to pay. Therefore, services (including the legally required medical screening examination and stabilization of the patient) are performed without delaying to obtain insurance information. In non-emergency circumstances or for elective procedures and services, it is the Hospital's policy to verify insurance prior to a patient being treated; however, there are various exceptions that can occur. Such exceptions can include, for example, instances where (1) the Hospital is unable to obtain verification because the patient's insurance company was unable to be reached or contacted, (2) a determination is made that a patient may be eligible for benefits under various government programs – such as Medicaid – and it takes several days or weeks before qualification for such benefits is confirmed or denied, and (3) under physician orders, services are provided to patients who require immediate treatment.

The Hospital has elected the practical expedient provided under GAAP and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Hospital's expectation that the period between the time that the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Hospital does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

**Charity care** – The Hospital provides services to patients who meet the criteria of its charity care policy without charge or at amounts less than its established rates. The Hospital's criteria for the determination of charity care include the patient's – or the other responsible party's – annual household income, assets, credit history, existing debt obligations, and other indicators of the patient's ability to pay. Generally, uninsured individuals with an annual household income at, or less than, 300% of the Federal Poverty Guidelines (the Guidelines) qualify for charity care under the Hospital's policy. In addition, the Hospital provides discounts on a sliding scale to those individuals with an annual household income of between 300% and 400% of the Guidelines. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported in patient care service revenue.

**Patient accounts receivable** – The collection of receivables from third-party payors and patients is the Hospital's primary source of cash and is critical to its operating performance. When the Hospital provides care to patients, it does not require collateral. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but the patient is responsible for the remaining amounts outstanding (generally deductibles and co-payments).

# Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

## Notes to Consolidated Financial Statements

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Patient accounts receivable, including billed accounts and unbilled accounts for which the Hospital has the unconditional right to payment, and estimated amounts due from third-party payors for retroactive adjustments, are receivables if the Hospital's right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. The estimated uncollectible amounts are generally considered implicit price concessions that are a direct reduction to patient accounts receivable rather than as an allowance for doubtful accounts. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Hospital. The Hospital believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Hospital payer mix has remained constant since the Hospital's inception.

During the year ended December 31, 2023, net patient service revenue was decreased by approximately \$1,870,000 due to a change in Management's estimate of the collectability of patient accounts receivable as of December 31, 2022. During the year ended December 31, 2022, net patient service revenue was decreased by approximately \$1,250,000 due to a change in Management's estimate of the collectability of patient accounts receivable as of December 31, 2021.

The beginning and ending balances of patient accounts receivable are as follows:

	December 31,		January 1,
	2023	2022	2022
Patient accounts receivable	\$ 15,723,855	\$ 14,792,792	\$ 11,607,123

Significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental health care coverage could affect the Hospital's collection of patient accounts receivable, cash flows, and results of operations.

Significant concentrations of gross patient accounts receivable as of December 31, 2023 and 2022 were approximately as follows:

	2023	2022
Medicare	36%	34%
OHP and Medicaid	16%	23%
Commercial insurance and other third-party payors	33%	32%
Self-pay	8%	11%
Other	7%	0%
	<u>100%</u>	<u>100%</u>



## **Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**

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

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**Government grants** – Government grants consist of federal programs such as the Provider Relief Fund program and other federal grants that aid in training and preparation for emergency responses. Government grant arrangements have been evaluated and determined to be nonreciprocal, meaning the granting entity has not received a direct benefit in exchange for the resources provided. Therefore, revenue is recognized as a conditional contribution when the barrier to entitlement is overcome. The barrier to entitlement is considered overcome when expenditures associated with each grant are determined to be allowable and all other significant conditions of the grant are met. The Hospital's policy is to classify grants whose restrictions are met in the same reporting period as the conditions are met as governmental grant revenue without donor restrictions. The Hospital has recorded grants and financial assistance during the years ended December 31, 2023 and 2022 totaling approximately \$0 and \$2,845,000, respectively, to assist with COVID-19 related costs. Based on Management's analysis, the Hospital met the requirements to recognize approximately \$0 and \$2,832,000 of such grant funds as revenue during the years ended December 31, 2023 and 2022, respectively, which are included in government grant revenue in the accompanying consolidated statements of operations.

**Cash and cash equivalents** – Cash and cash equivalents include investments in highly liquid debt instruments with remaining maturities of three months or less at the time of purchase by the Hospital, excluding assets limited as to use (see Note 2). The Hospital maintains its bank accounts at several financial institutions. The Hospital's accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each financial institution. As of December 31, 2023, certain of the Hospital's bank balances exceeded the applicable FDIC coverage; however, management believes that its credit risk with respect to these bank balances is minimal due to the financial strength of the financial institutions.

**Assets limited as to use and long-term investments** – Assets limited as to use consist of assets (cash and money market accounts) designated by the Hospital's Board of Directors (the Board) for future capital acquisitions, over which the Board retains control and may, at its discretion, subsequently use for other purposes (internally designated assets); donor restricted funds principally held for the benefit of victims of the September 2020 Oregon wildfires (the Santiam Canyon Wildfire Relief Fund (the Wildfire Relief Fund)); and cash held in escrow accounts restricted pursuant to a mortgage note payable agreement with Midland States Bank (the Mortgage Note) (see Notes 2 and 5). Amounts required to pay for current liabilities are included in current assets. Long-term investments consist of mutual funds, exchange-traded funds, and money market funds (see Note 2).

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including interest, dividends, realized and unrealized gains and losses, and external and direct internal investment expenses) is included in the excess of revenue over expenses unless their use is limited by donor-imposed restrictions or by law that extends donor restrictions, in which case investment income or loss on equity securities would be reported as increases or decreases in net assets with donor restrictions. For cash flow reporting purposes, purchases, sales, and maturities of assets limited as to use and investments are classified as investing activities.

## **Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**

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

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Management believes that the Hospital's credit risk with respect to assets limited as to use and long-term investments is minimal due to FDIC insurance coverage, the diversity of the individual instruments, and the financial strength of the entities which have issued the securities or instruments. However, due to changes in economic conditions, interest rates, and common stock prices, the fair value of the Hospital's assets limited as to use and long-term investments can be volatile. Consequently, the fair value of the Hospital's assets limited as to use and long-term investments can change significantly in the near-term as a result of such volatility.

Financial instruments that potentially expose the Hospital to concentrations of credit risk consist principally of cash and cash equivalents on deposit with financial institutions, the balances of which frequently exceed federally insured limits. If any of the financial institutions with whom the Hospital does business were to be placed into receivership, the Hospital may be unable to access to the cash we have on deposit with such institutions. If the Hospital were unable to access our cash and cash equivalents as needed, our financial position and ability to operate the Hospital's business could be adversely affected.

**Supplies inventory** – Supplies inventory is recorded at the lower of cost (first-in, first-out method) or net realizable value.

**Property and equipment** – Property and equipment acquisitions are recorded at cost. Donated property and equipment items are recorded on the basis of estimated fair value at the date of their donation. Property and equipment acquisitions – and improvements and replacements of property and equipment – with a cost of \$2,500 or more are capitalized. Lesser amounts, and routine maintenance and repairs, are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the depreciable assets based on guidelines published by the American Hospital Association and is computed using the straight-line method. Net interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. The Hospital did not capitalize any interest during the years ended December 31, 2023 and 2022.

Management reviews property and equipment for possible impairment whenever events or circumstances indicate that the carrying amount of property and equipment may not be recoverable. If there is an indication of impairment, Management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these estimate cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value.

**Finance leases** - The Hospital accounts for a contract as a lease when it has the right to control the asset for a period of time while obtaining substantially all of the asset's economic benefits. The Hospital determines if an arrangement is a lease or contains an embedded lease at inception. For arrangements that meet the definition of a lease, the Hospital determines the initial classification and measurement of its right-of-use asset and lease liability at the lease commencement date and thereafter if modified. The lease term includes any renewal options that the Hospital is reasonably assured to exercise.

## **Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**

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

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In addition to rent, the leases may require the Hospital to pay additional costs, such as utilities, maintenance and other operating costs, which are generally referred to as non-lease components. The Hospital has elected to not separate lease and non-lease components. Only the fixed costs for lease components and their associated non-lease components are accounted for as a single lease component and recognized as part of a right-of-use asset and lease liability. Lease-related liabilities are recognized at the present value of the remaining contractual fixed lease payments. Because the rate implicit in each lease is not readily determinable, the Hospital elected to use the risk-free rate as the discount rate to determine the present value of the lease payments.

**Deferred financing costs and premium on the Mortgage Note** – Deferred financing costs are amortized to interest expense – and the premium on the Mortgage Note is accreted as an offset to interest expense – over the term of the related Mortgage Note using the interest method.

**Net assets with donor restrictions** – Net assets with donor restrictions are those whose use by the Hospital has been limited by donors to a specific purpose.

**Consolidated statements of operations** – For purposes of presentation, transactions deemed by Management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as other income and expenses. The accompanying consolidated statements of operations include the (deficiency) excess of revenue over expenses, which is the performance indicator. Contributions of property and equipment are excluded from the (deficiency) excess of revenue over expenses in accordance with GAAP.

**Contributions** – Contributions are reported as support with donor restrictions 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 with donor restrictions are reclassified to net assets without donor restrictions and reported in the Hospital's consolidated statements of operations as net assets released from donor restrictions. Donor-restricted and grantor-restricted contributions whose restrictions are met within the same year as received are included in government grant revenue and/or other revenue in the Hospital's consolidated statements of operations. During the year ended December 31, 2023, the Hospital received approximately \$121,000 from donors restricted for the purposes of the Wildfire Relief Fund, and approximately \$998,000 of such funds was expended in accordance with the donors' restrictions. During the year ended December 31, 2023, the Hospital received approximately \$1,331,000 from donors restricted for other purposes. During the year ended December 31, 2022, the Hospital received approximately \$545,000 from donors restricted for other purposes of the Wildfire Relief Fund, and approximately \$1,133,000 of such funds was expended in accordance with the donors' restrictions.

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

## Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

### Notes to Consolidated Financial Statements

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**Oregon provider tax** – The Hospital is subject to a "provider tax" levied by Oregon to provide additional funding for OHP. The tax is based on patient care service revenue, as adjusted, in accordance with the rules governing the program. The Hospital recorded provider taxes of approximately \$3,753,000 and \$3,877,000 for the years ended December 31, 2023 and 2022, respectively.

In addition, the Hospital has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments to the Hospital related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to the Hospital. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to qualifying hospitals. Any such amounts received by the Hospital from OAHHS are reflected as a component of net patient care service revenue in the accompanying consolidated statements of operations. As of December 31, 2023 and 2022, prepaid expenses and other current assets include approximately \$765,000 and \$1,058,000, respectively, of provider taxes receivable due from OAHHS; and other accrued liabilities include approximately \$767,000 and \$1,060,000, respectively, of provider taxes payable to OAHHS.

**Income taxes** – Santiam Memorial Hospital is a tax-exempt organization pursuant to Internal Revenue Code (IRC) Section 501(c)(3). As such, only unrelated business income is subject to federal or state income taxes. The Medical Group is a single-member limited liability company and is being treated as a "disregarded entity" for IRC reporting purposes. As a "disregarded entity," it is treated as a division of Santiam Memorial Hospital. It is Management's belief that none of the Hospital's activities have generated material unrelated business income; therefore, no provision for income taxes has been made in the accompanying consolidated financial statements.

Income tax positions that meet a "more-likely-than-not" recognition threshold are measured at the largest amount of income tax benefit that is more than 50% likely to be realized upon settlement with the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized income tax benefits in the Hospital's consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized income tax benefits would be classified as income taxes in the Hospital's consolidated statements of operations. There were no unrecognized income tax benefits, nor any interest and penalties associated with unrecognized income tax benefits, accrued or expensed as of and for the years ended December 31, 2023 and 2022.

The Hospital files a federal information return in the U.S. and a state information return in Oregon.

## Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

### Notes to Consolidated Financial Statements

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**Recently issued accounting standards** – In June 2016, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326)* which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under Topic 326, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Hospital that are subject to the guidance in this statement were accounts receivable. The Hospital adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the consolidated financial statements and primarily resulted in enhanced disclosures.

**Subsequent events** – Subsequent events are events or transactions that occur after the consolidated balance sheet date but before financial statements are available to be issued. The Hospital 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 Hospital'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 available to be issued.

The Hospital has evaluated subsequent events through May 23, 2024 which is the date the consolidated financial statements were available to be issued.

# Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

## Notes to Consolidated Financial Statements

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### Note 2 – Liquidity, Availability of Resources, Assets Limited as to Use, and Long-term Investments

As of December 31, 2023, the Hospital has working capital of approximately \$17,907,000 and average days (based on normal expenditures) cash on hand of 48.86.

Assets limited as to use consisted of the following as of December 31, 2023 and 2022 :

	<u>2023</u>	<u>2022</u>
Internally designated for capital acquisitions		
Cash and cash equivalents	\$ 469,311	\$ 193,611
Total internally designated for capital acquisitions	<u>469,311</u>	<u>193,611</u>
Amounts held with donor restrictions principally for Wildfire Relief Fund (primarily cash and cash equivalents)	<u>253,268</u>	<u>1,129,888</u>
Restricted amounts related to the Mortgage Note (see Note 5)		
Cash held in trust related to mortgage reserve fund	3,973,364	3,801,008
Cash held in escrow related to taxes and insurance	<u>176,390</u>	<u>209,058</u>
Total restricted amounts related to the Mortgage Note	4,149,754	4,010,066
Less portion classified as current	<u>(176,390)</u>	<u>(209,058)</u>
Total restricted amounts related to the Mortgage Note, net of current portion	<u>3,973,364</u>	<u>3,801,008</u>
Total assets limited as to use, net of current portion	<u><u>\$ 4,695,943</u></u>	<u><u>\$ 5,124,507</u></u>

Long-term investments consisted of the following as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Mutual Funds	\$ 716,837	\$ 992,191
Exchange Traded Funds	242,609	851,247
Money Market Funds	<u>1,665,006</u>	<u>296,894</u>
Long-term investments	<u><u>\$ 2,624,452</u></u>	<u><u>\$ 2,140,332</u></u>

# Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

## Notes to Consolidated Financial Statements

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The mortgage reserve fund held in trust in the above table is held by a trustee in accordance with the Mortgage Note, and the cash held in escrow related to taxes and insurance is held by Midland States Bank (see Notes 1 and 5). The current portion of restricted amounts related to the Mortgage Note are available to be used within one year for taxes and insurance (see below), and the long-term investments are available to be used for other purposes at the discretion of Management. The cash held with donor restrictions is expected to principally be expended for the benefit of Oregon wildfire victims as program restrictions are accomplished and is not available for general purposes. The other assets limited to use, consisting of internally designated assets and restricted amounts related to the Mortgage Note – net of current portion are not available for general expenditure within the next year. However, the amounts internally designated by the Board could be made available, if necessary.

The Hospital's financial assets available for general expenditure within one year of December 31, 2023 and 2022 consisted of the following:

	2023	2022
Cash and cash equivalents	\$ 12,690,902	\$ 22,594,124
Assets limited to use – held by trustee, current	176,390	209,058
Patient accounts receivable – net	15,723,855	14,792,792
Less government refundable advances	<u>(1,065,869)</u>	<u>(296,560)</u>
	<u><u>\$ 27,525,278</u></u>	<u><u>\$ 37,299,414</u></u>

Government refundable advances restricted for healthcare-related expense or lost revenue attributable to COVID-19 are deducted from financial assets available for general expenditure in the table above.

Investment income (loss) – net consisted of the following for the years ended December 31, 2023 and 2022:

	2023	2022
Interest and dividend income	\$ 577,004	\$ 154,096
Realized losses on sales of securities, net	(22,627)	(88,325)
Unrealized gains (losses) on securities – net	<u>159,533</u>	<u>(191,674)</u>
Investment gain (loss) income - net	<u><u>\$ 713,910</u></u>	<u><u>\$ (125,903)</u></u>

# Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

## Notes to Consolidated Financial Statements

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### Note 3 – Property and Equipment

Property and equipment consisted of the following as of December 31, 2023 and 2022:

	2023	2022
Land	\$ 1,912,367	\$ 1,952,948
Land improvements	810,905	770,324
Buildings and improvements	42,541,151	42,408,835
Equipment	32,496,886	22,838,303
	<u>77,761,309</u>	<u>67,970,410</u>
Less accumulated depreciation	<u>(39,139,273)</u>	<u>(35,990,783)</u>
	38,622,036	31,979,627
Construction in progress	<u>2,994,908</u>	<u>3,746,022</u>
Property and equipment, net	<u><u>\$ 41,616,944</u></u>	<u><u>\$ 35,725,649</u></u>

Construction in progress as of December 31, 2023 includes costs incurred in connection with various capital projects. The most significant of these capital projects is a remodel and expansion of the Hospital's emergency room. Management estimates that the cost to complete this project is approximately \$6,000,000 as of December 31, 2023 with an estimated date of completion by Fall 2024. This project will be financed primarily from donations already raised by the Santiam Memorial Hospital Foundation. Additional funding, if needed, is available from the Hospital's cash and cash equivalents, and cash generated by future operations and donations; however Management will consider other financing options as needed and available. Another significant project is underway to deliver emergency power backup for the east building on campus. Management estimates that the cost to complete this project is approximately \$1,200,000. This project is primarily funded by a \$1,000,000 grant awarded by Marion County from funding provided by the American Rescue Plan Act of 2021.

In January 2022, the Hospital entered into an agreement to purchase a new electronic health records system with an estimated implementation cost of approximately \$6,300,000. Construction in progress as of December 31, 2022 included approximately \$2,000,000 in costs related to this implementation. This project was implemented in August 2024 for a cost of approximately \$6,300,000.



# Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

## Notes to Consolidated Financial Statements

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### Note 4 – Leases

During the year ended December 31, 2023, the Hospital entered into three financing leases. For the year ended December 31, 2022, the Hospital did not have any leases that required recognition or disclosure. The components of financing lease expense were as follows:

	Year Ended December 31, 2023
Finance lease expense	
Amortization of right-of-use assets	\$ 340,699
Interest on lease liabilities	<u>32,671</u>
Total lease expense	<u><u>\$ 373,370</u></u>
Weighted average remaining lease term (in years)	4.24
Weighted average discount rate	4.85%

The future minimum finance lease payments at December 31, 2023, are as follows:

2024	\$ 783,126
2025	600,143
2026	607,688
2027	521,563
2028	<u>391,172</u>
Total	2,903,692
Less present value discount	<u>(289,004)</u>
Total finance lease liabilities	<u><u>\$ 2,614,688</u></u>

# Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

## Notes to Consolidated Financial Statements

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### Note 5 – Long-Term Debt

Long-term debt consisted of the following as of December 31, 2023 and 2022:

	2023	2022
Mortgage Note	\$ 19,453,592	\$ 20,465,695
SNAP Revenue Note	4,471,878	5,000,000
St. Charles Health System	1,148,688	-
	<hr/>	<hr/>
Total principal of long-term debt	25,074,158	25,465,695
Unamortized bond premium	557,378	633,867
Deferred financing costs – net	(1,534,397)	(1,731,194)
	<hr/>	<hr/>
Total long-term debt	24,097,139	24,368,368
Less current portion	(3,221,563)	(1,540,227)
	<hr/>	<hr/>
Long-term debt, net of current portion	<u>\$ 20,875,576</u>	<u>\$ 22,828,141</u>

In December 2014, the Hospital refinanced a prior note payable with the Mortgage Note in the amount of \$27,100,000 (issued at a premium of \$1,371,150). The prior note payable was issued in December 2010 to fund a building expansion and renovation construction project. The Mortgage Note is insured by the U.S. Department of Housing and Urban Development (HUD) and is secured by substantially all assets of the Hospital. Under the Mortgage Note, payments of approximately \$157,000 (including interest at 4.35%) are due monthly through September 2037.

In addition, under the Mortgage Note, the Hospital is required to make a deposit each month into a mortgage reserve fund so that such fund reaches certain scheduled year-end balances (including interest earned by the fund) growing from approximately \$3,800,000 as of December 31, 2022 (see Note 2) to a maximum of approximately \$4,000,000 as of December 31, 2023. The mortgage reserve fund schedule (based on estimated interest earnings) anticipates that no monthly deposits will be required from 2023 through 2028. Beginning in 2029, the mortgage reserve fund can be reduced (i.e., the Hospital can begin withdrawing amounts from the fund) in accordance with the mortgage reserve fund schedule such that no balance will remain as of December 31, 2037.

## Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

### Notes to Consolidated Financial Statements

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The Mortgage Note may be prepaid in whole or in part through January 31, 2024 with a prepayment penalty of 10%, from February 1, 2024 through January 31, 2025 with a prepayment penalty of 1%, and with no penalty after January 31, 2025. The Mortgage Note and related agreements with HUD include requirements to meet certain financial and operating covenants. A regulatory agreement (the Regulatory Agreement) between the Hospital and HUD relating to the Mortgage Note requires the Hospital to annually report certain financial ratios. As of and for the year ended December 31, 2023, Management has calculated these ratios (each as defined in the Regulatory Agreement) to be as follows: (1) debt service coverage ratio of approximately (0.25), (2) current ratio of approximately 2.27, (3) average payment period of approximately 40 days, and (4) equity financing ratio of approximately 53.71%. Also, according to the Regulatory Agreement, the Board is required to provide HUD with a written report as to what measures are being taken to improve the Hospital's operations if the Hospital's operating loss exceeds 1.0% of total revenue, the Hospital's excess of revenue over expenses is negative, or the mortgage reserve fund has not been funded in accordance with the mortgage reserve fund schedule.

On October 25, 2022, the Hospital entered into a Small Nonprofit Accelerated Program (SNAP) Revenue Note with the State of Oregon in the amount of \$5,000,000. The Note was issued to finance the acquisition and implementation of the revenue healthcare software, EPIC. The Note may not be used for other purposes. Under the Note, payments of approximately \$93,000 (including interest at 4.42%) began June 1, 2023 and are due monthly through May 2028.

In July of 2023, the Hospital entered into a unsecured short-term debt note with the St. Charles Health System in the amount of \$1,149,000. The Note was issued to cover final EPIC implementation costs. The note may not be used for other purposes. Under the note, payments of approximately \$100,000 (including interest at 5.0%) beginning on January 31, 2024 and are due monthly through December 2024.

Required principal payments on long-term obligations for the five years subsequent to December 31, 2023, and thereafter, are as follows:

2024	\$ 3,221,563
2025	2,083,803
2026	2,176,992
2027	2,274,348
2028	1,639,314
Thereafter	<u>13,678,138</u>
	<u><u>\$ 25,074,158</u></u>

# Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

## Notes to Consolidated Financial Statements

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### Note 6 – Net Patient Care Service Revenue

Net patient care service revenue for the years ended December 31, 2023 and 2022, based on an allocation of the estimated transaction price with the patient by primary payor, was as follows:

	2023	2022
Medicare	\$ 29,187,153	\$ 24,832,430
Medicaid and OHP	15,886,635	16,563,058
Commercial	37,909,987	37,713,837
Other third-party payors	9,009,358	6,822,200
Self-pay	2,238,963	2,534,198
	<u>2,238,963</u>	<u>2,534,198</u>
Net patient care service revenue	<u>\$ 94,232,096</u>	<u>\$ 88,465,723</u>

Net patient care service revenue for the years ended December 31, 2023 and 2022, based on the nature of services provided and timing of revenue recognition, was as follows:

	2023	2022
Inpatient – recognized over time	\$ 22,059,257	\$ 19,476,408
Outpatient – recognized at a point in time	72,172,839	68,989,315
	<u>72,172,839</u>	<u>68,989,315</u>
Net patient care service revenue	<u>\$ 94,232,096</u>	<u>\$ 88,465,723</u>

Management estimates that the net cost of charity care provided was approximately \$515,000 and \$649,000 for the years ended December 31, 2023 and 2022, respectively. These estimates were based on the Hospital's overall ratio of cost to charges in each year. For the years ended December 31, 2023 and 2022, approximately 0.48% and 1.50%, respectively, of all inpatient admissions and outpatient visits were classified as charity care. The largest proportion of services provided on a charity care basis was for emergency room and surgical services.

# Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

## Notes to Consolidated Financial Statements

### Note 7 – Functional Classification of Expenses

Expenses on a functional basis for the years ended December 31, 2023 and 2022 were as follows:

	Health Care Services			Support Services	Total
	Acute	Ambulatory	Clinics	MG&A	
<b>2023</b>					
Salaries and benefits	\$ 18,236,470	\$ 20,483,451	\$ 20,467,301	\$ 6,894,103	\$ 66,081,325
Supplies	3,247,058	10,160,393	1,647,706	222,606	15,277,763
Purchased services	2,138,418	5,393,025	1,060,805	2,023,404	10,615,652
Provider tax expense	825,756	2,289,597	487,947	150,138	3,753,438
Depreciation and amortization	305,802	1,118,764	290,452	1,827,263	3,542,281
Community relations	-	-	-	1,203,995	1,203,995
Insurance	29,925	89,249	176,370	354,591	650,135
Interest	270,480	749,968	159,829	49,178	1,229,455
Repairs and maintenance	269,928	705,265	79,384	15,706	1,070,283
Utilities	123,660	342,876	154,854	29,227	650,617
Other	966,056	633,602	824,125	5,329,081	7,752,864
	<u>\$ 26,413,553</u>	<u>\$ 41,966,190</u>	<u>\$ 25,348,773</u>	<u>\$ 18,099,292</u>	<u>\$ 111,827,808</u>
	Health Care Services			Support Services	Total
	Acute	Ambulatory	Clinics	MG&A	
<b>2022</b>					
Salaries and benefits	\$ 17,255,333	\$ 16,640,398	\$ 18,258,286	\$ 5,886,917	\$ 58,040,934
Supplies	2,816,932	8,575,164	1,459,335	219,609	13,071,040
Purchased services	1,217,190	4,877,227	898,357	870,408	7,863,182
Provider tax expense	852,847	2,364,713	503,955	155,063	3,876,578
Depreciation and amortization	355,972	981,071	285,072	1,541,593	3,163,708
Community relations	-	-	26,155	1,089,513	1,115,668
Insurance	69,389	66,209	311,038	458,174	904,810
Interest	191,710	531,560	113,283	34,856	871,409
Repairs and maintenance	209,815	592,840	10,204	776	813,635
Utilities	97,608	270,641	82,732	17,747	468,728
Other	1,060,875	730,011	908,122	4,373,264	7,072,272
	<u>\$ 24,127,671</u>	<u>\$ 35,629,834</u>	<u>\$ 22,856,539</u>	<u>\$ 14,647,920</u>	<u>\$ 97,261,964</u>

The accompanying consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, amortization, interest, and other occupancy costs, are allocated to a function based on a square footage or units of service basis. Allocated health care service costs not allocated on a units of service basis are otherwise allocated based on revenue.

# **Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**

## **Notes to Consolidated Financial Statements**

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### **Note 8 – Retirement Plan**

The Hospital maintains a tax-deferred retirement savings plan (the 401(k) Plan) which is available to all employees who are regularly scheduled to work at least twenty hours per week and are age nineteen or older. Employees are automatically enrolled to defer a portion of their earnings on a pre-tax basis through contributions to the 401(k) Plan. Participants who have completed one year of service are also eligible to receive Hospital contributions. For eligible participants, the Hospital may elect to match participant contributions. During the years ended December 31, 2023 and 2022, the Hospital elected to match 100% of participant contributions up to 3% of the participant's compensation. Employees are immediately vested in their own contributions and the Hospital's contributions. Total expense incurred by the Hospital related to the 401(k) Plan during the years ended December 31, 2023 and 2022 was approximately \$1,431,000 and \$1,283,000, respectively.

### **Note 9 – Commitments and Contingencies**

**Medical malpractice insurance** – The Hospital has a claims-made basis medical malpractice insurance policy. Under this policy, medical malpractice claims reported by the Hospital to the insurance company during the policy period are covered; however, any medical malpractice claim that has been incurred but not reported (IBNR) to the insurance company during the policy period is not covered. The Hospital has recorded an estimated liability for reported and IBNR medical malpractice claims which aggregated \$162,000 as of December 31, 2023 and 2022, and is included in other noncurrent liabilities in the accompanying consolidated balance sheets. Management believes that the estimated liability for reported and IBNR medical malpractice claims is adequate; however, the establishment of an estimated liability for reported and IBNR medical malpractice claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact the Hospital's reported results of operations in future periods.

**Self-insured health and dental claims** – The Hospital is self-insured for health and dental benefits provided to its employees (and employees' eligible family members). In conjunction with the self-insured health plan, the Hospital purchases stop-loss insurance which generally limits the Hospital's liability to \$125,000 per covered individual per year. Such benefits are provided through the Santiam Memorial Hospital Health Plan (the Health Plan) (a revocable trust fund), which is administered by a third-party administrator. The provision and accrual for estimated claims include estimates of the ultimate costs for both reported claims and IBNR claims and are based upon the estimated costs of settlement. As of December 31, 2023 and 2022, the Hospital has recorded estimated liabilities for reported and IBNR employee health and dental claims aggregating approximately \$1,214,000 and \$1,056,000, respectively, which are included in other accrued liabilities in the accompanying consolidated balance sheets. Management believes that these estimated liabilities are adequate to cover any related potential losses; however, the establishment of estimated liabilities for IBNR health and dental claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact the Hospital's reported results of operations in future periods. The Hospital's consolidated financial statements do not include the accounts of the Health Plan, as such accounts are not significant to the Hospital's consolidated financial statements.

# **Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**

## **Notes to Consolidated Financial Statements**

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**Risk management** – In the ordinary course of business, the Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; cyber-attacks; pandemics; errors and omissions; employee injuries and illnesses; and natural disasters. However, Management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the years ended December 31, 2023 and 2022.

**Regulation and litigation** – The health care industry is subject to various laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. There has been significant government activity with respect to investigations and allegations concerning possible violations by health care providers of laws and regulations; any such violations could result in the expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments of patient services previously billed and collected. Management believes that the Hospital is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations; however, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

In addition, the Hospital becomes involved in litigation and other regulatory investigations arising in the ordinary course of business. After consultation with legal counsel, Management believes that these matters will be resolved without causing a material adverse effect on the Hospital's future consolidated financial position or results of operations.

### **Note 10 – Fair Value Measurements**

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

Level 1 – Fair value of the asset or liability is determined using observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Fair value of the asset or liability is determined using inputs other than quoted prices that are observable for the applicable asset or liability, either directly or indirectly, such as quoted prices for similar (as opposed to identical) assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and

Level 3 – Fair value of the asset or liability is determined using unobservable inputs that are significant to the fair value measurement and reflect the organization's own assumptions regarding the applicable asset or liability.

# Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

## Notes to Consolidated Financial Statements

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*Mutual funds and money market funds* – Valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value and to transact at that price. The funds held by the Organization are deemed to be actively traded. Mutual funds held by the Plan are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission.

*Exchange traded funds (ETF)* – Valued at the closing price reported on the active market on which the individual securities or fund are traded.

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

As of December 31, 2023 and 2022, the Hospital's financial assets measured at fair value on a recurring basis were as follows:

	Level 1	Level 2	Level 3	Total
2023				
Mutual Funds	\$ 716,837	\$ -	\$ -	\$ 716,837
Exchange Traded Funds	242,609	-	-	242,609
Money Market Funds	1,665,006	-	-	1,665,006
	<u>\$ 2,624,452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,624,452</u>
2022				
Mutual Funds	\$ 992,191	\$ -	\$ -	\$ 992,191
Exchange Traded Funds	851,247	-	-	851,247
Money Market Funds	296,894	-	-	296,894
	<u>\$ 2,140,332</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,140,332</u>

### Note 11 – Subsequent Events

On May 22, 2024, Santiam Hospital & Clinics announced their plan to pursue formal affiliation with Samaritan Health Services, a local non-profit healthcare delivery system. The organizations have signed a nonbinding letter of intent (LOI) to allow the parties to further evaluate the affiliation with the anticipated outcome of Santiam Hospital & Clinics becoming part of Samaritan Health Services.



## **Supplementary Information**

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**Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**  
**Summary of Operations (Unaudited)**  
**Years Ended December 31, 2023 and 2022**

	2023 (Unaudited)			2022 (Unaudited)			2023 as Compared to 2022	
	Amount	Per Adjusted Patient Day	% of Total Revenue	Amount	Per Adjusted Patient Day	% of Total Revenue	Increase (Decrease)	% Increase (Decrease)
Revenue								
Net patient care service revenue	\$ 94,232,096	\$ 3,955	90%	\$ 88,465,723	\$ 3,570	91%	\$ 5,766,373	7%
Government grant revenue	3,833,854	161	4%	4,314,629	174	4%	(480,775)	-11%
Other revenue	4,321,763	181	4%	3,201,770	129	3%	1,119,993	35%
Net assets released from restrictions – satisfaction of program restrictions	1,836,289	77	2%	1,363,587	55	1%	472,702	35%
Total revenue	104,224,002	4,374	100%	97,345,709	3,929	100%	6,878,293	7%
Expenses								
Salaries and benefits	66,081,325	2,773	63%	58,040,934	2,342	60%	8,040,391	14%
Other operating departments' expenses	25,967,670	1,090	25%	24,085,467	972	25%	1,882,203	8%
Other service departments' expenses	2,270,125	95	2%	1,970,183	80	2%	299,942	15%
Other expenses	12,736,952	535	12%	9,130,263	368	9%	3,606,689	40%
Interest	1,229,455	52	1%	871,409	35	1%	358,046	41%
Depreciation	3,542,281	149	3%	3,163,708	128	3%	378,573	12%
Total expenses	111,827,808	4,693	107%	97,261,964	3,925	100%	14,565,844	15%
Operating (loss) income	<u>\$ (7,603,806)</u>	<u>\$ (319)</u>	<u>-7%</u>	<u>\$ 83,745</u>	<u>\$ 3</u>	<u>0%</u>	<u>\$ (7,687,551)</u>	<u>-9180%</u>
Total patient days, excluding newborns and swing beds		<u>4,008</u>			<u>4,420</u>			
Total adjusted patient days, excluding newborns and swing beds		<u>23,829</u>			<u>24,779</u>			

**Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**  
**Gross Patient Care Service Revenue (Unaudited)**  
**Years Ended December 31, 2023 and 2022**

	2023 (Unaudited)			2022 (Unaudited)		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Daily patient revenue						
Nursing	\$ 6,747,757	\$ 1,760,319	\$ 8,508,076	\$ 5,711,683	\$ 1,075,387	\$ 6,787,070
Intensive care unit	2,787,187	810,241	3,597,428	4,013,002	-	4,013,002
Nursery	433,769	914	434,683	400,755	1,274	402,029
Medical/surgical	38,645	173,617	212,262	47,622	138,720	186,342
	<u>10,007,358</u>	<u>2,745,091</u>	<u>12,752,449</u>	<u>10,173,062</u>	<u>1,215,381</u>	<u>11,388,443</u>
Other nursing services						
Surgery and recovery room	8,476,406	38,758,538	47,234,944	7,956,562	33,831,238	41,787,800
Labor and delivery	1,472,909	315,513	1,788,422	1,003,762	230,340	1,234,102
Emergency	2,249,032	34,143,761	36,392,793	1,804,944	29,003,462	30,808,406
SHOTS *	127,426	3,112,442	3,239,868	-	2,346,742	2,346,742
	<u>12,325,773</u>	<u>76,330,254</u>	<u>88,656,027</u>	<u>10,765,268</u>	<u>65,411,782</u>	<u>76,177,050</u>
Other professional services						
Laboratory	2,767,953	16,874,364	19,642,317	2,484,029	17,432,759	19,916,788
Radiology	2,849,630	34,888,270	37,737,900	2,579,395	30,662,219	33,241,614
Pharmacy	3,130,307	6,999,997	10,130,304	3,036,306	5,961,435	8,997,741
Hospitalists	1,279,833	429,964	1,709,797	1,247,119	295,620	1,542,739
Anesthesiology	678,882	2,196,540	2,875,422	420,890	1,670,769	2,091,659
Respiratory therapy	2,574,490	3,371,892	5,946,382	2,132,858	3,114,749	5,247,607
Physical therapy	377,579	402,114	779,693	431,019	391,714	822,733
Nutritional therapy	90	42,083	42,173	-	52,066	52,066
Ambulance	-	4,707,485	4,707,485	-	3,778,043	3,778,043
Neurology	7,734	884,510	892,244	-	-	-
Clinics	-	28,157,363	28,157,363	-	23,257,123	23,257,123
	<u>13,666,498</u>	<u>98,954,582</u>	<u>112,621,080</u>	<u>12,331,616</u>	<u>86,616,497</u>	<u>98,948,113</u>
Total Gross Patient Care Service Revenue	<u>\$ 35,999,629</u>	<u>\$ 178,029,927</u>	<u>\$ 214,029,556</u>	<u>\$ 33,269,946</u>	<u>\$ 153,243,660</u>	<u>\$ 186,513,606</u>

\* Santiam Hospital & Clinics Outpatient Treatment Services Clinic (SHOTS)

**Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**  
**Operating Departments' Expenses (Unaudited)**  
**Years Ended December 31, 2023 and 2022**

	2023 (Unaudited)			2022 (Unaudited)		
	Salaries and Benefits	Other	Total	Salaries and Benefits	Other	Total
Daily patient revenue						
Nursing	\$ 10,079,381	\$ 783,906	\$ 10,863,287	\$ 9,849,081	\$ 1,195,897	\$ 11,044,978
Intensive care unit	47,170	369,925	417,095	75,040	72,137	147,177
Nursery	2,649	61,876	64,525	1,508	100,623	102,131
Medical/surgical	75,764	907,918	983,682	-	334,392	334,392
	<u>10,204,964</u>	<u>2,123,625</u>	<u>12,328,589</u>	<u>9,925,629</u>	<u>1,703,049</u>	<u>11,628,678</u>
Other nursing services						
Surgery and recovery room	4,058,533	5,100,311	9,158,844	3,533,657	4,707,967	8,241,624
Labor and delivery	2,314,241	421,636	2,735,877	1,937,570	448,175	2,385,745
Emergency	3,235,046	3,192,581	6,427,627	1,584,960	3,415,734	5,000,694
SHOTS *	879,521	193,405	1,072,926	821,763	189,557	1,011,320
	<u>10,487,341</u>	<u>8,907,933</u>	<u>19,395,274</u>	<u>7,877,950</u>	<u>8,761,433</u>	<u>16,639,383</u>
Other professional services						
Laboratory	3,490,400	4,077,836	7,568,236	3,165,497	4,178,730	7,344,227
Radiology	3,845,828	872,210	4,718,038	3,584,341	1,439,023	5,023,364
Pharmacy	2,013,172	3,669,479	5,682,651	1,941,886	2,146,634	4,088,520
Hospitalists	1,571,013	779,894	2,350,907	1,621,002	413,933	2,034,935
Anesthesiology	1,176,444	997,292	2,173,736	1,023,098	817,915	1,841,013
Respiratory therapy	1,106,207	103,990	1,210,197	891,918	133,278	1,025,196
Physical therapy	-	306,771	306,771	-	275,812	275,812
Ambulance	1,493,178	332,514	1,825,692	1,167,151	366,433	1,533,584
Clinics	20,360,153	3,796,126	24,156,279	18,201,544	3,849,227	22,050,771
	<u>35,056,395</u>	<u>14,936,112</u>	<u>49,992,507</u>	<u>31,596,437</u>	<u>13,620,985</u>	<u>45,217,422</u>
Total operating departments' expenses	<u>\$ 55,748,700</u>	<u>\$ 25,967,670</u>	<u>\$ 81,716,370</u>	<u>\$ 49,400,016</u>	<u>\$ 24,085,467</u>	<u>\$ 73,485,483</u>

\* Santiam Hospital & Clinics Outpatient Treatment Services Clinic (SHOTS)

**Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**  
**Service Departments' Expenses and Administrative and General Expenses (Unaudited)**  
**Years Ended December 31, 2023 and 2022**

	2023 (Unaudited)			2022 (Unaudited)		
	Salaries, Benefits, and Payroll Taxes	Other	Total	Salaries, Benefits, and Payroll Taxes	Other	Total
Service departments' expenses						
Medical records	\$ 1,742,964	\$ 109,371	\$ 1,852,335	\$ 1,075,062	\$ 180,507	\$ 1,255,569
Dietary and cafeteria	767,703	724,736	1,492,439	817,271	574,031	1,391,302
Operation and maintenance of plant	824,212	1,131,675	1,955,887	436,476	1,013,749	1,450,225
Environmental services	302,241	121,999	424,240	631,361	54,122	685,483
Laundry and linen	-	182,344	182,344	-	147,774	147,774
Total Service Departments' Expenses	<u>\$ 3,637,120</u>	<u>\$ 2,270,125</u>	<u>\$ 5,907,245</u>	<u>\$ 2,960,170</u>	<u>\$ 1,970,183</u>	<u>\$ 4,930,353</u>
		2023	2022			
Administrative and general expenses						
Salaries and wages		\$ 4,341,583	\$ 3,348,514			
Employee benefits		1,577,529	1,338,202			
Payroll taxes		421,633	275,384			
Provider tax expense		3,753,438	3,876,579			
Santiam Canyon Wildfire Relief Fund distributions		849,057	1,133,004			
Professional fees		2,020,567	945,477			
Community relations		1,203,995	1,089,513			
Office supplies and rental		253,203	941,147			
Insurance and bonding		354,518	458,151			
Electronic health records training and consulting		366,278	211,318			
Telephone		202,333	190,424			
Physician		12,246	126,976			
Education		206,549	244,180			
Other		3,865,542	771,330			
Total Administrative and General Expenses		<u>\$ 19,428,471</u>	<u>\$ 14,950,199</u>			

## **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  
Santiam Memorial Hospital, dba Santiam Hospital

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 Santiam Memorial Hospital (an Oregon nonprofit corporation) and its subsidiaries, collectively doing business as (dba) “Santiam Hospital” (the Hospital), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of operations, operations and changes in 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 May 23, 2024.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Hospital’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 Hospital’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital’s internal control.

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

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

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital'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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Portland, Oregon

May 23, 2024

## **Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance**

The Board of Directors  
Santiam Memorial Hospital, dba Santiam Hospital

### **Report on Compliance for the Major Federal Program**

#### ***Opinion on the Major Federal Program***

We have audited Santiam Memorial Hospital's (an Oregon nonprofit corporation) and its subsidiaries, collectively doing business as (dba) "Santiam Hospital" (the Hospital), compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Hospital's major federal program for the year ended December 31, 2023. The Hospital's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2023.

#### ***Basis for Opinion on the Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Hospital's compliance with the compliance requirements referred to above.

#### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Hospital's federal programs.



### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Hospital's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Hospital's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Hospital's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Hospital's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Portland, Oregon  
May 23, 2024

**Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2023**

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Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Grant Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
Section 242 – Mortgage Insurance for Hospitals	14.128	n/a	<u>\$ 20,465,695</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>20,465,695</u>
<b>U.S. Department of Health and Human Services</b>			
Pass-through Programs from Oregon Health Authority:			
COVID-19 Epidemiology and Laboratory Capacity for Prevention and Control of Emerging Infectious Diseases	93.323	unknown	<u>2,159,092</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>2,159,092</u>
<b>U.S. Department of Homeland Security</b>			
Pass-through Programs from St. Vincent De Paul:			
Disaster Assistance Projects (FEMA-4562-DR-OR)	97.088	unknown	<u>28,698</u>
<b>Total U.S. Department of Homeland Security</b>			<u>28,698</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 22,653,485</u></u>

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See accompanying notes to schedule of expenditures of federal awards.

**Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2023**

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**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Santiam Memorial Hospital (an Oregon nonprofit corporation) and its subsidiaries, collectively doing business as (dba) "Santiam Hospital" (the "Hospital"), under programs of the federal government for the year ended December 31, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2, *U.S. Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to, and does not, present the consolidated balance sheet, statement of operations, operations and changes in assets, or cash flows of the Hospital.

**2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**3. Indirect Cost Rate**

The Hospital elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**4. Loan Guarantee Program**

The United States Department of Housing and Urban Development has insured certain mortgage loan borrowings undertaken by the Hospital in connection with capital projects and has imposed continuing compliance requirements. The balance of the insured loan and the related transactions are reported in the Hospital's basic consolidated financial statements. The guaranteed loan was fully drawn down in December 2014 and remains outstanding as of December 31, 2023. The outstanding balance of the guaranteed loan at the beginning of 2023 totaling \$20,465,695 is included in the federal expenditures presented in the Schedule.

The outstanding balance of the guaranteed loan totaled \$19,453,592 as of December 31, 2023.

**5. Noncash Assistance**

The Hospital did not receive any noncash assistance during the year ended December 31, 2023.

**Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2023**

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**Section 1 – Summary of Auditors' Results**

*Consolidated Financial Statements*

1. Type of auditors' report issued on whether the audited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America – **unmodified**
2. Significant deficiency(ies) in internal control identified in the audit of the consolidated financial statements – **none reported**
3. Material weakness(es) in internal control identified in the audit of the consolidated financial statements – **no**
4. Noncompliance that is material to the consolidated financial statements noted – **no**

*Federal Awards*

5. Significant deficiency(ies) in internal control over major federal programs identified in the audit – **none reported**
6. Material weakness(es) in internal control over major federal programs identified in the audit – **no**
7. The type of auditors' report issued on compliance for major federal programs – **unmodified**
8. Audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) – **none**

*Identification of Major Federal Programs*

- **U.S. Department of Housing and Urban Development, Section 242 – Mortgage Insurance for Hospitals (Assistance Listing No. 14.128)**
9. Dollar threshold used to distinguish between Type A and Type B programs – **\$750,000**
  10. Is the auditee qualified as a low-risk auditee under 2 CFR 200.520? – **yes**

**Section 2 – Consolidated Financial Statement Findings**

11. Findings relating to the consolidated financial statements reported in accordance with *Government Auditing Standards* – **none**

**Section 3 – Federal Award Findings and Questioned Costs**

12. Findings and questioned costs relating to federal awards – **none**

