

HCMO-1: Notice of Material Change Transaction

Attachment A

Detailed Information About Bay Area Hospital District

1. Describe the Participating Entity.

a. Describe the Participating Entity's business, including business lines or segments.

Bay Area Hospital District is a 501(c)(3) hospital district organized under Oregon law. It owns and operates Bay Area Hospital, a 172-bed, licensed public community hospital located in Coos Bay, Oregon. It also owns and operates a cancer center and women's imaging center in Coos Bay. Bay Area Hospital District's business lines and segments include the following centers, programs, and services: Bariatric Center, Bay Area Cancer Center, behavioral health, Prefontaine Cardiovascular Center, diabetes program, dialysis, emergency services, Family Birth Center, Kids' HOPE Center, lab and pathology, medical imaging, Orthopedics Clinic, palliative care, pediatrics, pharmacy, rehabilitation, Sleep Center, surgical services, telemedicine, and wound care.

b. Describe the Participating Entity's governance and operational structure (including ownership of or by a health care entity)

Bay Area Hospital District is a 501(c)(3) hospital district with an elected board of six members. It owns and operates Bay Area Hospital, as well as a cancer center and women's imaging center, in Coos Bay, Oregon. The governance documents for Bay Area Hospital District are attached as **Attachment A, Exhibit 1.b.**

c. Provide a diagram or chart showing the organizational structure and relationships between business entities.

See Attachment A, Exhibit 1.c.

d. List all of the Participating Entity's business entities currently licensed to operate in Oregon using [HCMO-1b: Business Entities form](#). Provide the business name, assumed business name, business structure, date of incorporation, jurisdiction, principal place of business, and FEIN for each entity.

See Attachment A, Exhibit 1.d.

e. Provide financial statements for the most recent three fiscal years. If Party A also operates outside of Oregon, provide financial statements both for Party A nationally and for the Participating Entity's Oregon business.

See Attachment A, Exhibit 1.e.

- f. Describe and identify the Participating Entity's health care business.** A description of Bay Area Hospital District's business lines and services is set forth in item 1.a., above. Bay Area Hospital District has three service locations, including its hospital location, cancer center location, and its imaging center location.

Provide responses to i-ix as applicable:

- i. Provider type (hospital, physician group, etc.)**
Bay Area Hospital District is a 501(c)(3) hospital district organized under Oregon law. It owns and operates Bay Area Hospital, as well as a cancer center and an imaging center.
- ii. Service lines, both overall and in Oregon**
See response to item 1.a., above.
- iii. Products and services, both overall and in Oregon**
See response to item 1.a., above.
- iv. Number of staff and FTE, both overall and in Oregon**
Bay Area Hospital District has 1,124 employees and 1,081 FTEs (both in Oregon and overall).
- v. Geographic areas served, both overall and in Oregon**
Bay Area Hospital District serves Coos County and the Southern Oregon coast.
- vi. Addresses of all facilities owned or operated using [HCMO-1c: Facilities and Locations form](#)**
See Attachment A, Exhibit 1.f.vi.
- vii. Annual number of people served in Oregon, for all business, not just business related to transaction**
Bay Area Hospital District served about 100,000 people in 2025.
- viii. Annual number of services provided in Oregon**
Bay Area Hospital District annually handles about 5,000 acute care visits, 21,000 emergency room visits, and 91,000 outpatient visits.
- ix. For hospitals, number of licensed beds**

Bay Area Hospital has 172 licensed beds.

2. **Describe all mergers, acquisitions, and joint ventures that closed in the ten (10) years prior to filing this notice of material change transaction involving any entities party to the current proposed transaction, the same or related services, and health care entities. For each previous transaction, include:**
 - a. **Legal names of all entities party to the transaction**
 - b. **Type of transaction**
 - c. **Description of the transaction**
 - d. **Date the transaction closed**

NA. Bay Area Hospital District has closed no mergers, acquisitions, or joint ventures within the past 10 years.

Attachment A

Exhibit 1.b.

Governance Documents



Department of Commerce Corporation Division

I, **Frank J. Healy**, Corporation Commissioner and Custodian of the Seal of the Corporation Division of the State of Oregon, DO HEREBY CERTIFY:

That we currently have on file the assumed business name registration of BAY AREA HOSPITAL, No. 166341, which was filed December 19, 1978, for Coos County; and

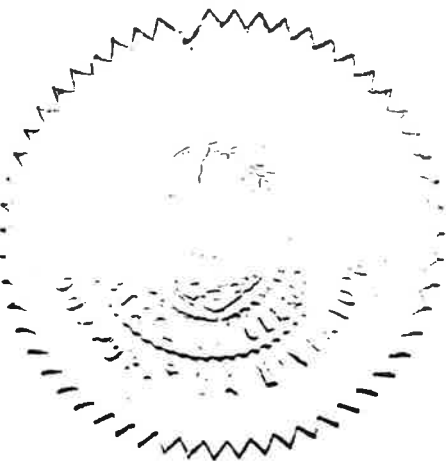
I FURTHER CERTIFY that the party of interest is BAY AREA HEALTH DISTRICT, 1775 Thompson Road, Coos Bay, Oregon 97420.

In Testimony Whereof, I have hereunto set my hand and affixed hereto the seal of the Corporation Division of the Department of Commerce of the State of Oregon this

27th day of August, 1980.

Frank J. Healy
Corporation Commissioner

By Shirley Smith



IN THE COUNTY COURT OF THE STATE OF OREGON IN AND FOR THE COUNTY OF COOS

CASE NO. 57

FILE NO. 4

FILED JUN 4 1952

ENTERED IN VOL. 22 PAGE 675
County COURT JOURNAL

GEORGINNA VAUGHAN
COUNTY CLERK

BY *Bruce*
DEPUTY

In the Matter of the)
Proposed Formation of) PROCLAMATION
Bay Area Hospital District)

Whereas, at a special election duly and regularly held on the
16th day of May, A.D. 1952, within that portion of Coos county, state of
Oregon, described as

Beginning at a point where the North line of Section Two (2), Township twenty-three (23) South, Range thirteen (13) West, of the Willamette Meridian, Coos County, Oregon, produced westerly, intersects the low water line of the Pacific Ocean and running thence along section lines and half section lines the courses and distances hereinafter set forth, to-wit:

Thence along the North lines of Townships 23 S., Ranges 13, 12, 11 and 10 West respectively, which line is the boundary between Douglas and Coos Counties, for a distance of Seventeen miles more or less to the northeast corner of Section four (4), in Township twenty-three (23) South of Range ten (10) West of Willamette Meridian; thence south along said county line five and one-half ($5\frac{1}{2}$) miles, more or less, to the east quarter section corner of Section thirty-three (33) in said township; thence west one-half ($\frac{1}{2}$) mile to the center of said Section thirty-three (33); thence south one-half ($\frac{1}{2}$) mile to the south quarter Section corner of said Section Thirty-three (33); thence west to the north quarter Section corner of Section four (4) in Township twenty-four (24) South, Range ten (10) West of the Willamette Meridian; thence in said township south two and one-half ($2\frac{1}{2}$) miles to the center of Section sixteen (16); thence east three and one-half ($3\frac{1}{2}$) miles to the east quarter Section corner of Section thirteen (13); thence south along said county line three and one-half ($3\frac{1}{2}$) miles, more or less, to the northwest corner of Township twenty-five (25) South, of Range nine (9) west of Willamette Meridian; thence east along said county line three (3) miles to the northeast corner of Section four (4) in said Township; thence south along said county line six (6) miles to the southeast corner of Section thirty-three (33), in said Township; thence west along said county line to the northeast corner of Section (4) in Township twenty-six (26) South, of Range nine (9) West of Willamette Meridian; thence south six (6) miles along said county line to the southeast corner of Section thirty-three (33) in said Township; thence east along said county line to the northeast corner of Township twenty-seven (27) South, of Range nine (9) West of Willamette Meridian; thence south along said county line four (4) miles, more or less, to the southeast corner of Section twenty-four (24) in said Township; thence in said Township west three (3) miles to the southwest corner of Section twenty-two (22); thence north one (1) mile to the northwest corner of said Section twenty-two (22), thence west one and one-half ($1\frac{1}{2}$) miles to the south quarter Section corner of Section seventeen (17), thence north one-half ($\frac{1}{2}$) mile to the center of said Section seventeen (17); thence west one-half ($\frac{1}{2}$) mile to the west quarter Section corner of said Section seventeen (17); thence north one half ($\frac{1}{2}$) mile to the northwest corner of said Section seventeen (17); thence west two (2) miles to the southwest corner of Section twelve (12) in Township twenty-seven (27) South, of Range ten (10) West, of the Willamette Meridian; thence north two (2) miles to the northwest corner of Section one (1) in said Township; thence west one-half ($\frac{1}{2}$) mile to the south quarter Section corner of Section thirty-five (35), Township twenty-six (26) South, of Range ten (10) West of the Willamette Meridian; thence in said Township north one (1) mile to the north quarter Section corner of said Section thirty-five (35), thence east one-half ($\frac{1}{2}$) mile to the northeast corner of said Section thirty-five (35); thence north two (2) miles to the southeast corner of Section fourteen (14), thence west one (1) mile to the southwest corner of said Section fourteen (14), thence north two (2) miles to the southwest corner of Section two (2), thence west three (3) miles to the southwest corner of Section five (5), thence north one (1) mile to the northwest corner of said Section five (5), thence west one (1) mile, more or less, to the northwest corner of Section six (6) thence north one-half ($\frac{1}{2}$) mile, more or less, to the northeast corner of Section one (1) in Township twenty-six (26) South, of Range eleven (11) West of Willamette Meridian; thence in said Township west four

There was submitted to the legal voters thereof, one or more

and each portion of same county, state of Oregon, and

be incorporated as a district for the purpose of

and

(4) miles to the northwest corner of Section four (4), thence south one and one-half ($1\frac{1}{2}$) miles to the east quarter Section corner of Section eight (8), thence west one-half ($\frac{1}{2}$) mile to the center of said Section eight (8), thence south one-half ($\frac{1}{2}$) mile to the south quarter Section corner of said Section eight (8), thence west one (1) mile to the north quarter Section corner of Section eighteen (18), thence south one (1) mile to the south quarter Section corner of said Section eighteen (18), thence west one-half ($\frac{1}{2}$) mile to the southwest corner of said Section eighteen (18), thence south one-half ($\frac{1}{2}$) mile to the east quarter Section corner of Section twenty-four (24), in Township twenty-six (26) South, of Range twelve (12) West of Willamette Meridian; thence in said Township west one-half ($\frac{1}{2}$) mile to the center of said Section twenty-four (24) thence south one-half ($\frac{1}{2}$) mile to the south quarter Section corner of said Section twenty-four (24), thence west one and one-half ($1\frac{1}{2}$) miles to the southwest corner of Section twenty-three (23), thence south one (1) mile to the southeast corner of Section twenty-seven (27), thence west one-half ($\frac{1}{2}$) mile to the north quarter Section corner of Section thirty-four (34), thence south one (1) mile to the south quarter Section corner of said Section thirty-four (34), thence west one and one-half ($1\frac{1}{2}$) miles to the northeast corner of Section five (5), Township twenty-seven (27) South, of Range twelve (12) West of the Willamette Meridian; thence in said Township south one (1) mile to the southeast corner of said Section five (5), thence west one (1) mile to the southwest corner of said Section five (5), thence south one-half ($\frac{1}{2}$) mile to the east quarter Section corner of Section seven (7), thence west one (1) mile to the west quarter Section corner of said Section seven (7); thence in Township twenty-seven (27) South of Range thirteen (13) West, of Willamette Meridian, west two (2) miles to the east quarter Section corner of Section ten (10), thence north one-half ($\frac{1}{2}$) mile to the northeast corner of said Section ten (10), thence west one (1) mile to the northwest corner of said Section ten (10), thence north one-half ($\frac{1}{2}$) mile to the east quarter Section corner of Section four (4), thence west three (3) miles to the west quarter Section corner of Section six (6), thence south two and one-half ($2\frac{1}{2}$) miles to the southwest corner of Section eighteen (18); thence in Township twenty-seven (27) South, of Range fourteen (14) west, of Willamette Meridian, west one and one-half ($1\frac{1}{2}$) miles to the south quarter Section corner of Section fourteen (14), thence north one-half ($\frac{1}{2}$) mile to the center of said Section fourteen (14), thence west one-half ($\frac{1}{2}$) mile to the west quarter Section corner of said Section fourteen (14) thence north three and one-half ($3\frac{1}{2}$) miles to the southwest corner of Section twenty-six (26) of Township twenty-six (26) South, of Range fourteen (14) West, of Willamette Meridian; thence in said Township east one-half ($\frac{1}{2}$) mile to the south quarter Section corner of said Section twenty-six (26), thence north one (1) mile to the north quarter Section corner of said Section twenty-six (26), thence west one-half ($\frac{1}{2}$) mile to the northwest corner of said Section twenty-six (26), thence north four (4) miles, more or less, to a point where the section line between Sections two (2) and three (3) of said Township intersects the low water line of the Pacific Ocean; thence northeasterly across the entrance to Coos Bay and along the low water line of the Pacific Ocean nineteen (19) miles, more or less, to the place of beginning; all of said described lands being within Coos County and State of Oregon,

1 there was submitted to the legal voters thereof the question whether
 2 all that portion of Coos county, state of Oregon, as above described, should
 3 be incorporated as a district for the purpose of supplying its inhabitants
 4 with facilities for the care of sick and injured persons under and pursuant
 5 to the provisions of that certain act of the legislative assembly of the
 6 state of Oregon, passed at its regular session held in 1949, entitled
 7 'An act to authorize districts to incorporate as municipal corporations
 8 for the purpose of supplying their inhabitants with facilities for the
 9 care of sick and injured persons; to issue, sell and dispose of bonds and
 10 other securities; to levy taxes; and to have the right of eminent domain
 11 for such purposes; and

12 Whereas, at such election so held 5131 votes were cast in
 13 favor of such incorporation, and 1534 votes were cast against such
 14 incorporation; and

15 Whereas, the incorporation of Bay Area Hospital District re-
 16 ceived the affirmative vote of the majority of the votes cast at such
 17 election;

18 Now, therefore, the county court of the county of Coos, state
 19 of Oregon, does hereby proclaim and declare that all that part of Coos
 20 county, state of Oregon, hereinbefore described has been duly and legally
 21 incorporated as a municipal corporation under the name of Bay Area Hospital
 22 District, under and pursuant to and with the powers vested in such cor-
 23 poration by virtue of that certain act of the legislative assembly of the
 24 state of Oregon, passed at its regular session in the year 1949, as here-
 25 inbefore referred to.

26 Done at Coquille, Oregon this 3 day of June 1952.

27 COOS COUNTY COURT

28 By James W. Harrison County Judge

29 By Paul A. Krum County Commissioner

30 By A. E. Price County Commissioner

BAY AREA HEALTH DISTRICT BYLAWS

AMENDED (Article V) and APPROVED JUNE 1, 2021
REVISED AND APPROVED MARCH 3, 2021

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BYLAWS OF BAY AREA HEALTH DISTRICT

ARTICLE I. ORGANIZATION

1.1. Health District. The Bay Area Health District is a political subdivision and municipal corporation of the State of Oregon, located within Coos County, Oregon, created in its present form pursuant to ORS 440.305, and as such is governed by the provisions of ORS 440.315 to 440.410, and the Oregon laws relating to municipal corporations and special Districts.

1.2. Incorporation of Laws. There is incorporated as a part of these bylaws the applicable provisions of the Oregon Revised Statutes relating to special Districts, health Districts, government ethics and conflicts of interest, public records and meetings, local budget and health care facilities.

1.3. Fiscal Year. The fiscal year shall be July 1 through June 30.

ARTICLE II. PURPOSES AND GOALS

2.1. Purposes of District. As provided by ORS Chapter 440, the purposes of the District are to:

- a) Provide clinically related diagnostic, treatment and rehabilitative services on an inpatient and outpatient basis;
- b) Provide outreach programs in health care education, research and patient care;
- c) Serve as a resource for health care providers in the district; and
- d) Promote the physical and mental health and well-being of district residents.

2.2. Level of Care. The Bay Area Health District shall endeavor to provide for its inhabitants all of the District and health care services and facilities that are necessary for the physical and mental health and well-being of the community, having due regard to the wishes of its inhabitants, the financial resources which are available for such purposes, and the limitations imposed by law. There shall be no discrimination in the level of care provided among patients with the same health problems based on their age, gender identity, sex, race, religion, or national origin.

2.3. Cooperation with Other Providers. The District shall cooperate with health care institutions in southwestern Oregon for the purpose of providing both quality and economy of health care services.

2.4. Education and Research. The District may support or participate in such educational and scientific research activities as are deemed to be necessary, desirable, and feasible for providing health care services.

ARTICLE III. DISTRICT BOARD

3.1. Composition and Selection. The District Board is composed of six (6) Board members who are elected at large in regular District elections according to Oregon law. District board members serve for staggered terms of four (4) years expiring June 30 following the District elections. Vacancies in office are filled or appointed until the next District election by the remaining Board members, until the next district.

3.2. Eligibility. Each District Board member who is elected or appointed to such office shall be a registered voter within the Bay Area Health District as provided by ORS 440.325. Employees of the District may not serve as Directors. Cause for removal from the District Board shall include: 1) Failure to remain a registered voter of the District, or 2) Commencement of employment with the District.

3.3. Exercise of Powers. All powers, duties and functions of the District which are provided or permitted by the laws of the State of Oregon shall be exercised by motion or resolution of the District Board, except those powers, duties and functions which are otherwise delegated by state statutes, by these bylaws or by motion or resolution of the District Board.

3.4. Duties. The District Board shall have the following duties:

a) To organize itself and the administration of the District's facilities and programs in a manner which facilitates expedient performance of assigned duties, including adopting suitable bylaws and establishing a plan of organization providing single and distinct lines of authority and responsibility.

b) To formulate philosophy and policies of the District for the direction of its management.

c) To appoint a Chief Executive Officer (CEO) who is qualified for the assigned responsibilities by education and experience and delegate to such administrator authority and responsibility for administrative action.

d) To evaluate, at least annually, the performance and salary of the CEO.

e) To define the mission, role and programs of the District, and the strategic plan appropriate to carry it out.

f) To identify the changing needs of the community, and the changes in the legal and regulatory climate.

g) To require the development of a sound personnel program in the District programs, recognizing legal rights of District employees.

h) To develop policies protecting patients from unlawful discrimination and assuring that District services are not inappropriately denied to those entitled to receive them.

i) To review and approve or modify proposed Auxiliary Bylaws, plans and programs and oversee its activities on behalf of the District.

j) To propose or review and take action on staff-proposed Medical Staff Bylaws, Fair Hearing Plan and Rules and Regulations.

k) To review and approve a quality improvement and patient safety system designed to evaluate health care rendered in District facilities.

l) To monitor Medical Staff and administrative efforts to evaluate and improve patient care.

m) To review and approve policies for the appropriate management of the financial affairs of the District including provisions for administration of funds given in trust, accurate records of finances and activities (including an annual audit), and an appropriate system of charges and collections.

n) To review and approve annual operating and capital budgets with assistance of the Finance Committee.

o) To secure adequate funding to keep the District's programs and facilities operating; raise capital and operating funds for personnel, medical improvements, equipment, and facilities, commensurate with District resources and priority of needs; and manage endowments.

p) To perform such other duties as federal and Oregon laws, rules, or regulations require of the governing body of the District.

3.5. Evaluation of Board Members. The District Board shall evaluate its own performance at least once a year.

3.6. Continuing Education of Directors. Directors shall participate in programs for continuing education relating to the duties and functions of the District Board, including its responsibility for quality of care and the District's quality improvement program; and new members of the District Board shall participate in an orientation program.

ARTICLE IV. MEETINGS

4.1. Regular Meetings. The District Board shall hold at least one (1) regular meeting each month at such times and places as may be established by motion or resolution of the District Board.

4.2. Notice of Meetings. All District Board members shall be given the notice and agenda for all regular meetings not less than four (4) days prior to the meeting. The District Board shall give public notice of meetings called to decide or deliberate toward a decision on any issue, using a form reasonably calculated to give actual notice to interested persons including news media which have requested notice. The notice shall include the time and place for such meetings and shall include a list of principal subjects anticipated to be considered. Failure to list a topic shall not preclude District Board consideration of that topic, however.

4.3. Executive Session. If any regular, special, or emergency meeting will be held solely as an executive session pursuant to ORS 192.660, the notice shall identify the specific provision of law authorizing the executive session. Unless the executive session is for the purpose of conducting deliberations with persons designated to carry on labor negotiations, the news media shall be allowed to attend but shall be required not to disclose the content except as specifically authorized by the District Board. Final action or decision shall not be taken on any matter during executive session.

4.4. Special Meetings. A special meeting of the District Board may be called by the Chair or any two members of the District Board by giving not less than twenty-four (24) hours' notice, of the time of such meeting and its purpose to all members who are then within the District, and no business shall be transacted except that which is described in the notice. Any member may waive notice of a special meeting; and if all members of the District Board are present at a special meeting, they may, on unanimous vote, waive notice of the business to be transacted at such meeting.

4.5. Notice of Special and Emergency Meetings. Absent an actual emergency, twenty-four (24) hours' notice of all special meetings convened to reach a decision or deliberate toward a decision shall be given to members of the District Board, the news media which have required notice, and the general public. In case of an actual emergency, a meeting may be held upon such notice as is appropriate to the circumstances, but the minutes shall reflect the basis for the emergency.

4.6. Meeting Location and Public Access. All non-emergency meetings of the District Board, whether general or special, convened to make a decision or deliberate toward a decision and not involving a joint meeting with another public body within its District, shall be held within the geographical boundaries of the District, and, unless an Executive Session is declared by the presiding officer, shall be open to the public.

4.7. Telephonic Meetings. The District Board may conduct its meetings by use of telephone or other electronic communications in accordance with ORS 192.610 and 192.690, but if the meeting is convened to reach a decision or deliberate toward a decision and is not an executive session, at least one place shall be provided where the public can contemporaneously hear the communication. The media shall be given access to such a location for executive sessions if they would be entitled to attend if the meeting were held in person.

4.8. Quorum and Majority Decision. A majority of the District Board members (more than one half) shall constitute a quorum to do business and the affirmative vote of a majority of such quorum shall be sufficient to decide any question or issue, except as otherwise provided by law or these bylaws. In the absence of the Chair and Vice-Chair, any other member may preside at any meeting. The District Board may from time to time establish its own rules of procedures.

4.9. CEO and President of Medical Staff. The CEO and the President of the Medical Staff shall have the right to take part in the discussions of the District Board and District Board committees, but shall have no vote therein. Except as otherwise provided by law, if the District Board discusses an issue that concerns a conflict between the District Board and the position of the CEO or President of the Medical Staff, the Board may exclude the CEO or President of the Medical Staff with whom the conflict exists during those discussions.

4.10. Minutes. Minutes shall be taken in writing of all District Board meetings convened to decide or deliberate toward a decision in any matter.

4.11. Attendance. The term of a Director shall expire when the Director is absent from four (4) or more consecutive regular meetings of the District Board and the District Board declares the position vacant as provided in ORS 440.330(5).

ARTICLE V. OFFICERS

Officers of the District shall be Chair, Vice-Chair, Secretary, and Treasurer who shall be elected for a two year term by the District Board from its members at the first meeting in July of every other year, and they shall hold their office until their successors are elected or appointed. The District Board may appoint officers pro tempore to serve during a temporary absence or disability of an elected officer or may appoint officers to serve until the next election of officers to fill a permanent vacancy in an office.

The officer of the District shall have those powers, functions, and duties that may be provided by law, these bylaws or that may be delegated to them from time-to-time by the District Board; and such powers duties and functions shall include the following:

Chair: The Chair shall preside at all meetings of the District Board, shall execute documents which are the official acts of the District or its District Board, and shall make all committee appointments.

Vice-Chair: The Vice-Chair shall act as Chair during the absence or disability of the Chair.

Secretary: The Secretary shall have charge of and right to control the keeping of the minutes, correspondence and records of the District Board.

Treasurer: The Treasurer shall have general supervision of the funds of the District, shall provide for the deposit and investment of District funds, and shall be the Chair of the Finance Committee.

ARTICLE VI. COMMITTEES

6.1. Establishment of Committees. The District Board may, from time-to-time, establish and abolish committees of the District and may delegate to committees such powers, duties and functions as are not inconsistent with the laws of the State of Oregon or these bylaws. Such committees may be composed of District members, non-board members or both. Standing committees of the District shall consist of the Joint Conference Committee, Finance Audit Committee, and Quality Process Steering Committee (QPSC).

6.2. Appointment and Terms. Following the election of officers each year, the Chair of the District shall appoint members to serve on the Finance Committee, Quality Steering Committee, and all special committees. The Chair of the District shall appoint District Board members to serve on the Joint Conference Committee. All such committee members shall serve until their successors have been appointed following the election of officers the next year. Non-board members may be appointed to committees based on their interests, training or experience in one or more of the subjects to be considered by the committee.

6.3. Fiduciary Duties of Staff Appointees and Employees Serving on Board Committees. Medical Staff appointees and District employees may be appointed to District Board committees, but if appointed, shall serve as individual

members and not as representatives or delegates of any group nor shall they be bound to follow directions of any constituency.

6.4. Joint Conference Committee:

a) **Composition:** The Joint Conference Committee shall consist of the following seven members: The Chief of Staff and two (2) other Medical Staff members selected by the Chief of Staff, the Chair of the District Board and one (1) other District Board member selected by the Chair, the Chief Executive Officer, and Chief Medical Officer.

b) **Organization and Meetings:** The Chair of the committee will be the Chair of the District Board and the Vice-Chair will be the Chief of Staff. The committee will meet as necessary, and the Chair of the District Board will call the meeting. Special meetings may be called by the Chair or any two (2) members of the committee after giving not less than three (3) hours' notice of the time and place of the meetings and by specifying the purpose of the meeting.

c) **Function and Duties:** The Joint Conference Committee will serve as a focal point for promoting an understanding of the roles, relationships, and responsibilities of the District Board, Administration, and the Medical Staff. The committee will also conduct itself as a forum for the discussion of matters of hospital policy and practice, especially those pertaining to efficient and effective patient care. The committee will act solely in an advisory capacity and make recommendations to the District Board and Medical Staff.

6.5. Finance/Audit Committee. The Finance/Audit Committee shall be composed of not fewer than five (5) and not more than seven (7) members, at least two (2) of whom shall be members of the District Board. A majority of the members shall constitute a quorum. The Finance Committee shall:

a) Review and recommend policies for the appropriate management of the financial affairs of the District including provisions for administration of funds given in trust, accurate records of finances and activities (including an annual audit), and an appropriate system of charges and collections.

b) Review as necessary and approve annual operating and capital budgets with recommendations to the District Board.

c) Review and recommend to the District Board policies for the purchase and disposal of equipment.

d) Review and recommend to the District Board policies concerning investment and deposits of District funds.

6.6. Quality Process Steering Committee. The Quality Process Steering Committee assists the Board in overseeing and ensuring the quality of clinical care, patient safety, and customer service/experience provided throughout the hospital organization. The Quality Steering Committee shall be composed of not fewer than five (5) and not more than seven (7) members at least two (2) of whom shall be members of the District Board. The remaining members of the committee should include qualified individuals from District executive management, Medical Staff, and the community. The committee shall

meet monthly, or as necessary at the call of the Chair of the District Board. The Quality Steering Committee shall:

- a) Review and recommend to the District Board approval of a multi-year Strategic Quality Work Plan with long-term and annual improvement targets.
- b) Review and recommend to the District Board quality/safety-related policies and standards.
- c) Approve, monitor, and report to the District Board key performance indicators compared to District goals and industry benchmarks.
- d) Review serious safety events and root cause analyses, and if appropriate, recommend corrective action to the District Board.
- e) Monitor summary reports of hospital and medical staff quality and patient safety activities.
- f) Oversee compliance with quality and safety related accreditation and regulatory standards.
- g) Monitor and facilitate performance related to complications, readmissions, safety and efficacy of new or high risk procedures.
- h) Provide recommendations to the District Board with respect to all matters related to the quality of care, patient safety, customer service/experience, and organizational culture.

ARTICLE VII. CHIEF EXECUTIVE OFFICER (CEO)

The District Board shall employ a competent and qualified person to act as CEO of the District. The CEO of the District shall have the general supervision and control of the administrative functions of the District. The CEO shall have the following powers, duties, functions, and responsibilities:

- a) The CEO shall be responsible for carrying out the policies and programs adopted by the District Board and the rules and regulations provided by state or federal law or by the District Board.
- b) The CEO shall develop a plan of the organization for the personnel concerned in the operation of the District, shall be responsible for the selection, employment, control and discharge of employees and the development and maintenance of personnel policies and practices, shall establish means for accountability on the part of subordinates and shall provide for the lines of authority and communication within and between departments, medical staff, auxiliary and other personnel.
- c) The CEO shall attend meetings of the District Board and shall serve as liaison officer for official communications between the District Board, its committees, the Bay Area Hospital Community Foundation, Medical Staff and Auxiliary.

d) The CEO shall pursue a continuing program of education in health care, administrative and management systems and procedures and may participate in community, state and national hospital associations and other professional activities which have as their objectives the improvement of health care, services, and procedures.

ARTICLE VIII. MEDICAL STAFF

8.1. Organizational Purposes and Documents. Fulfillment of the District's health care objectives requires a cooperative effort among the Medical Staff practicing in the District and the District Board and hospital administration, with well-defined lines of communication, responsibility and authority throughout the organizational structure. Accordingly, the Medical Staff and District Board shall cooperatively develop Medical Staff Bylaws, Fair Hearing Plan and Rules and Regulations to provide the necessary framework for the Medical Staff to discharge its responsibilities of reviewing clinical work at the hospital, reviewing qualifications of applicants for clinical privilege, exchanging professional information and in-hospital education, and providing advice to the District Board on medical matters.

All independent practitioners authorized to conduct any part of their professional services on District premises or in District programs on a routine basis shall be organized with respect to their District practices as specified in the Medical Staff Bylaws, to accomplish the following purposes:

a) To provide the District Board with a means of routine assessment of professional and hospital care rendered to patients admitted to or treated in any of the District's facilities or programs.

b) To provide mechanisms for detecting and eliminating patterns of care at the District that fail to conform to the standards expected of reasonable, prudent health care practitioners.

c) To provide mechanisms to promote improved patient care at the District through Medical Staff educational programs.

d) To provide necessary expertise to the District Board in technical and professional matters, including evaluation of applicants for clinical privileges, and resolution of charges of unprofessional conduct, impairment or incompetence.

e) To provide a means whereby Medical Staff views on policy, planning and other issues concerning the District may be conveyed to the District Board and the CEO, as appropriate.

8.2. Medical Staff Authority. The Medical Staff shall have responsibility and authority for the following matters.

a) To review individual applications for Medical Staff appointment, reappointment or clinical privileges and make recommendations to the District Board regarding the applicant's professional qualifications.

b) To carry out a system of peer review of quality of medical services in the District through retrospective evaluation, patient care audits, proctoring and

monitoring of the quality of patient care, identifying and resolving problems and identifying.

c) To carry out a system of utilization review based on provisions of the District's utilization review plan.

d) To conduct a continuing professional education program based at least in part on the needs demonstrated through the quality improvement and utilization review programs.

e) To assist the District in developing and obtaining Medical Staff compliance with the approved Medical Staff Bylaws, Rules and Regulations, and the District's other procedures, standards and policies.

f) On request, to assist the CEO and District Board in identifying community health needs, setting appropriate institutional goals and designing clinical programs to meet those needs.

g) To assist the District in compliance with licensing, accreditation, and other legal regulatory standards, including those related to disaster planning, records, maintenance, review organization audits, and billing requirements.

h) To review and revise the Medical Staff Bylaws and procedures when warranted.

8.3. Board-Staff Communication Lines. Proposed action or recommendations on policy or enforcement matters delegated to the Medical Staff by the District Board, as well as any other matters relating to patient care, which the Medical Staff appointees wish to bring to the Board for consideration, shall be submitted or taken through the organizational structure provided in the approved Medical Staff Bylaws and the Fair Hearing Plan.

8.4. Medical Staff Bylaws and Rules. The Medical Staff Bylaws, Fair Hearing Plan and Regulations shall not be inconsistent with these bylaws. Changes to Medical Staff Bylaws, Fair Hearing Plan and Rules and Regulations shall be effective when recommended by the Medical Staff and approved by the District Board.

8.5. Medical Staff Appointment and Clinical Privileges. Only graduates of accredited or equivalent colleges, universities and professional schools, who meet the personal and professional qualifications set forth in the approved Medical Staff Bylaws and Rules and Regulations shall be eligible for Medical Staff appointment or award of clinical privileges. Consideration of appointments, award of clinical privileges, subsequent renewals, and actions with respect to previously awarded appointments or privileges shall be made in accordance with the procedures set forth in the approved Medical Staff Bylaws and Fair Hearing Plan.

Any practitioner seeking appointment or clinical privileges at the District shall be given access to the Medical Staff Bylaws, Fair Hearing Plan and Regulations and shall specifically agree that he or she will:

a) Abide by ethics of his or her profession, avoid acts and omissions constituting unprofessional conduct, comply with federal and state laws and regulations including his or her written agreement not to engage in, be party to, or conduce unethical or illegal billing practices.

b) Provide his or her patients with care at the professional level of quality and efficiency generally recognized for this community.

c) Refrain from delegating (or accepting delegation of) diagnosis or care of hospitalized patients to persons not licensed or qualified to undertake such acts or not adequately supervised as required by the terms of any limited license or grant of privileges.

d) Abide by the approved Medical Staff Bylaws, the Rules and Regulations, the Fair Hearing Plan, and by all other lawful standards, policies, and rules of the District, as any of them may be amended from time-to-time.

e) Accept and appropriately discharge such Medical Staff, committee and hospital functions for which he or she is responsible by Medical Staff category, appointment, and election or otherwise, including quality improvement, utilization review, proctoring and service on hearing panels.

f) Prepare and complete in a timely fashion the medical, billing, and other required records for all patients in whose care he or she is involved in any way.

g) Personally provide or make adequate arrangements with another appropriate practitioner to provide continuous professional care for any patient in the hospital for whom he or she is the attending practitioner.

h) Accept and perform consultations within the scope of his or her privileges, except as otherwise provided for his or her Medical Staff category.

i) Engage in Medical Staff educational activities of the District; including attendance at and participation in committee and Medical Staff meetings.

j) Maintain the confidentiality of information with which he or she is entrusted in the scope of peer review and other activities on behalf of the District.

k) Cooperate with the officers, committees and other individuals and groups specified in the approved Medical Staff Bylaws, the Rules and Regulations, and Fair Hearing Plan in the performance of his or her duties, including giving accurate, complete, candid and timely responses to any inquiry he or she received from them.

l) Continuously maintain compliance with all criteria relevant to his or her appointment or clinical privileges.

Medical Staff appointment or particular clinical privileges shall not be denied on the basis of sex, race, creed, color, national origin, age or handicap unrelated to the ability to carry out professional responsibilities.

The District Board reserves to itself the right and power to determine the mission and goals of the District within relevant statutory restrictions and to determine those areas of community need and District priorities to which its assets shall be devoted.

8.6. Medical Staff Hearings and Appeals. Challenges to recommendations on the Medical Staff or decisions of the District Board concerning a practitioner's staff appointment status or clinical privileges shall be conducted in a timely fashion in accordance with the procedures in the approved Fair Hearing Plan, and notice of District Board determination relating to appointment or privileges shall be given as provided in the Medical Staff Bylaws and Fair Hearing Plan.

When an application for appointment or clinical privileges has been denied by the District Board in a final decision, the applicant may not reapply for appointment or those privileges until the expiration of two (2) years from the date of such denial unless the District Board provides otherwise.

8.7. Practitioner Responsibilities for Care. Practitioners awarded any form of clinical privileges shall accept and retain full responsibility for determination and management of all clinical treatment ordered or required by their patients of the District.

ARTICLE IX. AUXILIARY

An auxiliary may be organized for the purpose of rendering service to the District and its patients and may engage in other lawful activities that will promote health care services in the District. All articles of incorporation or bylaws of such auxiliary shall be subject to approval by the District Board before they shall become effective.

ARTICLE X. AMENDMENTS AND REVIEW

These bylaws may be amended by the affirmative vote of a majority of the entire District Board of the Bay Area Health District at a regular meeting or a special meeting called for such purpose. The District Board shall review these bylaws at least once each year and determine whether there is a need for amendment.

ARTICLE XI. CONFLICT OF INTEREST

Bay Area Health District is a public corporation and special District of the state of Oregon, and is subject to the ethics and conflict of interest rules and regulations of the Oregon Government Standards and Practices Laws contained in Chapter 244 of Oregon Revised Statutes. There is incorporated as rules and regulations of the District the applicable sections of ORS Chapter 244 as they now exist or may hereafter be amended including the Oregon statewide policy, definition of terms, application of the laws, the code of ethics, methods of handling conflicts of interest and the recording of notices of conflicts.

Members of the District Board and all employees and agents of the District have the responsibility of complying with the applicable rules and regulations of the Oregon Government Standards and Practices laws relating to government ethics and conflicts of interest incorporated in this policy. The CEO, senior management personnel and department heads of the District have the further duty to provide the employees they supervise with information and direction concerning such laws and policies.

BYLAWS OF BAY AREA HEALTH DISTRICT

Enacted by the Bay Area Health District Board November 21, 1972 and amended by the District Board November 8, 1976; March 9, 1981; April 13, 1981; November 8, 1982; March 13, 1989; May 20, 1993; September 21, 1995; September 4, 1997;

September 2, 1999; March 7, 2002; August 11, 2003; December 4, 2003; May 1, 2007;
April 14, 2009; and March 1, 2016, March 3, 2021, June 1, 2021.


Lynn Menashian, Board Chair

ATTESTED BY:


Donna Rabin, M.D., Board Secretary

AS OF:

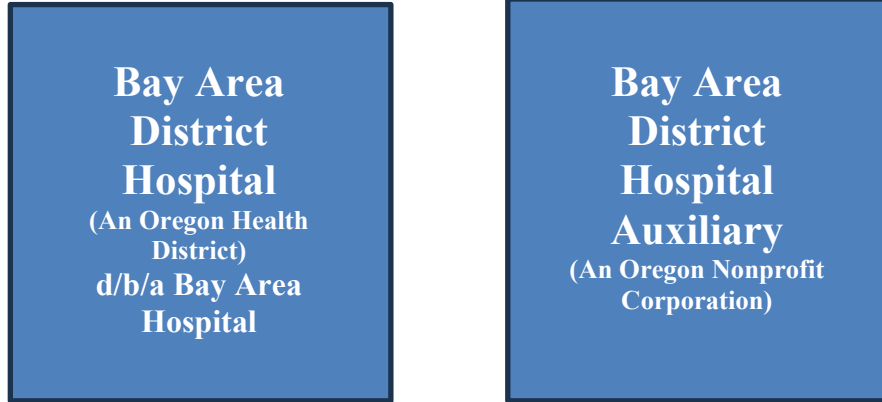

Date

Attachment A

Exhibit 1.c.

Organizational Chart or Structure

**ORGANIZATIONAL CHART
BAY AREA HOSPITAL DISTRICT**



Notes:

- Bay Area District Hospital has no affiliates.
- Bay Area District Hospital Auxiliary supports, but is legally separate from, Bay Area District Hospital

Attachment A

Exhibit 1.d.

HCMO-1b: Business Entities Form

Health Care Market Oversight (HCMO) Program

HCMO-1b: Business Entities Form

List all business entities associated with parties to the proposed material change transaction that are currently registered to operate in Oregon. Please add additional rows or pages as needed. Submit the completed form in a portable document form (pdf) to hcmo.info@oha.oregon.gov. This form will be published.

Definitions

“Business Name” refers to the legal business name as reported to the Internal Revenue Service.

“Assumed Business Name” has the meaning provided in ORS 648.005.

“Business Structure” refers to type of structure, such as a corporation, partnership, LLC, or other.

“Date Formed or Incorporated” refers to the date when the business entity was formed or incorporated.

“Jurisdiction” refers to the state of domestic registration.

“Principal Place of Business” is the physical street address where the business is located.

“FEIN” means the 9-digit federal tax identification number assigned by the Internal Revenue Service.

Business entities associated with Party A

Entity Name: Bay Area Hospital District

Business Name	Assumed Business Name	Business Structure	Date Formed or Incorporated	Jurisdiction	Principal Place of Business	FEIN
Bay Area Hospital District	Bay Area Hospital	501(c)(3) public health district	May 19, 1974	Oregon	1775 Thompson Road, Coos Bay, Oregon 97420	93-0593249
Bay Area District Hospital Auxiliary	NA	501(c)(3) public benefit corporation	August 22, 1972	Oregon	1775 Thompson Road, Coos Bay, Oregon 97420	23-7253910
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Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.
Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.
Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.
Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.

Attachment A

Exhibit 1.e.

Financial Statements



Reports of Independent Auditors
and Financial Statements

**Bay Area Health District,
dba Bay Area Hospital**

June 30, 2023 and 2022



MOSSADAMS

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Report of Independent Auditors

The Board of Directors
Bay Area Hospital District, dba Bay Area Hospital

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Bay Area Hospital District, dba Bay Area Hospital (the "Hospital") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the Bay Area Hospital District, dba Bay Area Hospital as of June 30, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 opinions.

Prior Period Financial Statements

The financial statements of Bay Area Hospital District as of June 30, 2022, were audited by other auditors whose report dated December 2, 2022, on those statements expressed an unmodified opinion and included a going concern section that described the Hospital's default on a certain financial covenant of its loan agreement discussed in Note 6 to the financial statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Hospital's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13 be presented to supplement the basic financial statements as well as schedules of changes in net pension asset (liability) and related ratios for the Defined Benefit Plan, contributions to the Defined Benefit Plan, and changes in total OPEB liability and related ratios for the Defined Benefit Plan on pages 56 through 58 to be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bay Area Hospital District's basic financial statements. The schedule of adopted appropriations and expenditures, original and final budget and actual as required by Oregon State Regulations, the statement of net position, and the statement of revenues, expenses, and changes in net position are presented for purposes of additional analysis and are not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of adopted appropriations and expenditures, original and final budget and actual, the consolidating statement of net position is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated November 27, 2023, on our consideration of Bay Area Hospital District's compliance with certain provisions of laws and regulations including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of Bay Area Hospital District's internal control over financial reporting or on compliance.

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

Portland, Oregon
November 27, 2023

Management's Discussion and Analysis

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2023 and 2022

Management's discussion and analysis of Bay Area Health District's, dba Bay Area Hospital's (the Hospital's), financial performance provides an overview of the Hospital's financial activities for the fiscal year ended June 30, 2023. Please read it in conjunction with the Hospital's financial statements, which begin on page 15.

Impact of COVID-19 pandemic continued to impact the Hospital financials in fiscal year 2023. The Hospital finalized returning the remaining \$7.2 million in Medicare Accelerated and Advance Payments Program. This program allowed inpatient acute care hospitals and other eligible providers to request accelerated payment of up to 100% of their Medicare payment amount for a six-month period. These accelerated payments are required to be repaid to Medicare through withholding of future Medicare fee-for-service payments beginning one year after receipt of the advance payments by the Hospital. During the year ended June 30, 2020, the Hospital received approximately \$31.0 million of such expanded payments under the Advance Payment Program.

In addition, volumes in the Fall of 2022 the Hospital experienced a surge of COVID-19 patients and experienced a shortage of healthcare professionals due to staff illnesses and the cancellation of travel nurse contracts shortly before the surge. This caused the Hospital to close one inpatient unit for four months. By November 2022, the Hospital had employed more nurses and was able to open the unit.

Financial Highlights

- The Hospital's net position of approximately \$93.8 million as of June 30, 2023, decreased by approximately \$35.1 million (27.2%) during fiscal year 2023. This was down significantly from the loss of approximately \$60.2 million (31.8%) during fiscal year 2022.
- In fiscal year 2023, actual gross patient service revenue was more than budgeted gross patient service revenue by approximately \$28.4 million (5.2%) and more than fiscal year 2022 by \$14.2 million (2.5%)
- Net patient service revenue increased from fiscal year 2022 by approximately \$24.4 million (13.5%). Disruptions in the Hospital's revenue cycle billing and collections process stemming from the installation of a new electronic health records system (EPIC system) that went live on June 19, 2021, directly lead to a slow-down in collections early in 2022. This ultimately resulted in significant write-downs of patient accounts receivable, as they were not billed and collected timely in fiscal year 2022. In fiscal year 2023 many improvements were recognized in the revenue cycle and additional cash collections bolstered the income statement.
- During fiscal year 2022, the Hospital expenses grew significantly from fiscal year 2021. Expenses stabilized in fiscal year 2023 and decreased by \$2.2 million or 0.89% from the prior year. The largest expense increase was benefit expense due to market changes of the defined benefit expense.
- The Hospital reported operating losses of approximately \$32.8 million and \$60.5 million in fiscal years 2023 and 2022, respectively.

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2023 and 2022

- Total nonoperating revenue - net was approximately a net nonoperating expense of \$2.3 million in fiscal year 2023 and positive \$356 thousand in fiscal year 2022. The change from fiscal year 2022 to fiscal year 2023 was primarily due to the recognition of government stimulus income of approximately \$7.5 million in 2022 (compared to no incentives in 2023), and a decrease in net investment loss of approximately \$7.3 million fiscal year 2022 vs and approximate \$1.1 million investment loss in fiscal year 2023. The net investment loss was incurred on the Hospital's fixed-income investment portfolio, the composition of which is dictated by State regulations.

Using this annual report

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenue, Expenses and Changes in Net Position, and a Statement of Cash Flows. These financial statements and related notes provide information about the financial activities of the Hospital. The Hospital is the trustee, or fiduciary, for a defined benefit employee pension plan. The Hospital is responsible for the assets of this pension plan which - because of a trust arrangement - can be used only for the trust beneficiaries. All of the Hospital's fiduciary activities (which are solely related to this pension plan) are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 20 and 21. These activities are excluded from the Hospital's other financial statements, because the Hospital cannot use these assets to finance its operations. The Hospital is responsible for ensuring that the assets reported in this fiduciary fund are used for their intended purposes.

The Statement of Net Position and Statement of Revenue, Expenses and Changes in Net Position

The Statement of Net Position and the Statement of Revenue, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps the user decide if the Hospital as a whole is better or worse off as a result of the year's activities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in net position from the prior year. You can think of the Hospital's net position - the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service that it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

The Statement of Cash Flows

This statement reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operating activities, noncapital financing activities (if applicable), capital and related financing activities, and investing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?" and "What was the change in the cash balance during the reporting period?"

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital
Management's Discussion and Analysis
Years Ended June 30, 2023 and 2022

The Hospital's net position

Hospital's net position is the difference between (1) its assets plus deferred outflows of resources and (2) its liabilities plus deferred inflows of resources, as reported in the Statement of Net Position on pages 15 and 16. The Hospital's net position decreased by approximately \$35.1 million (27.2%) in fiscal year 2023, as you can see from Tables 1 and 2 below.

Table 1: Assets, liabilities, and net position

	2023	2022
Assets		
Current assets	\$ 41,687,411	\$ 59,311,597
Assets limited as to use, net of current portion	53,401,226	80,175,078
Total capital assets, net	88,012,583	95,653,420
Other noncurrent assets	1,096,420	1,135,689
Total assets	184,197,640	236,275,784
Deferred outflows of resources	13,585,354	17,878,901
Total assets and deferred outflows of resources	197,782,994	254,154,685
Liabilities		
Long-term obligations, net of current portion	51,946,347	6,454,886
Long-term debt in default classified as current	-	47,876,185
Other current and noncurrent liabilities	41,919,604	62,039,628
Total liabilities	93,865,951	116,370,699
Deferred inflows of resources	10,155,902	8,923,732
Total liabilities and deferred inflows of resources	104,021,853	125,294,431
Net position		
Net investment in capital assets	32,520,549	38,013,775
Unrestricted	61,240,592	90,846,479
Total net position	\$ 93,761,141	\$ 128,860,254

Total assets and deferred outflows of resources decreased approximately \$56.4 million from June 30, 2022 to June 30, 2023. The decrease in cash and cash equivalents and Assets limited to use was primarily due to the poor operating and investment results discussed below as well as the return of amounts received under the Advance Payment Program and paying off the line of credit. The decrease in net patient accounts receivable was primarily due to improved collections. The decrease in the deferred outflows of resources related to the activity of the Hospital's defined benefit retirement plan (see Note 9 to the accompanying financial statements).

The Hospital's total long-term debt obligations (including current and non-current portions and borrowings under a revolving line of credit) decreased from approximately \$64.5 million as of June 30, 2022 to approximately \$47.9 million as of June 30, 2023, primarily due to the paying off the \$8.0 million revolving line of credit.

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2023 and 2022

The Hospital's net position has decreased by approximately \$35.1 million from June 30, 2022 to June 30, 2023, as a result of an operating loss of approximately \$32.8 million and nonoperating income – net of approximately \$2.3 million loss in fiscal year 2023.

The Hospital violated one of the Hospital's financial covenants in fiscal year 2022 and continued the violation into fiscal year 2023. Governmental Accounting Standards Board (GASB) standards require that certain debt not scheduled to be paid until years subsequent to fiscal year 2023 is required to be classified as current at the end of fiscal year 2022. At the end of fiscal year 2023 the Hospital and Bank of the West (BOTW) agreed to restructure the Hospital's debt to allow for the Hospital to exit default and continue its planning to resume financial viability. This agreement was finalized in October 2023, and due to the terms contained in the agreement, the Hospital was able to reclassify those debts back to long term debt in fiscal year 2023.

Operating results and changes in the Hospital's net position

In fiscal year 2023, the Hospital's net position decreased by approximately \$35.1 million or 27.2%, as shown in Table 2 below. This is an improvement of the \$60.2 million decrease in net position in fiscal year 2022. Stronger volumes and improved net patient service revenue helped drive the reduction. Union contracts were finalized in fiscal year 2023 and salaries and benefits increased approximately \$8.5 million or 8.6% from the prior year. This increase was offset by savings in Professional and purchased services of approximately \$8.7 million or 12.2%. Most of this was due to reduced reliance on contract labor.

Table 2: Operating results and changes in net position

	2023	2022
Operating revenue		
Net patient service revenue	\$ 205,096,629	\$ 180,653,353
Other revenue	2,516,598	1,417,189
Total operating revenue	<u>\$ 207,613,227</u>	<u>\$ 182,070,542</u>
Operating expenses		
Salaries and benefits	108,244,634	99,683,870
Supplies and other	57,294,342	59,355,744
Professional fees and purchased services	62,823,354	71,565,457
Depreciation	12,062,291	11,978,518
Total operating expenses	<u>240,424,621</u>	<u>242,583,589</u>
Operating loss	<u>(32,811,394)</u>	<u>(60,513,047)</u>
Nonoperating revenue (expenses)		
Investment loss, net	(1,091,923)	(7,272,373)
Government stimulus income	-	7,455,649
Noncapital contributions	1,340,012	1,553,435
Interest Expense	(2,535,808)	(1,380,795)
Total nonoperating revenue, net	<u>(2,287,719)</u>	<u>355,916</u>
Increase (decrease) in net position	<u>(35,099,113)</u>	<u>(60,157,131)</u>
Net position, beginning of year	128,860,254	189,017,385
Net position, ending of year	<u>\$ 93,761,141</u>	<u>\$ 128,860,254</u>

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2023 and 2022

Operating loss

The first component of the overall change in the Hospital's net position is its operating loss - generally, the difference between net patient service revenue and the expenses incurred to perform those services. The Hospital reported an operating loss of approximately \$32.8 million in fiscal year 2023, compared to an operating loss of approximately \$60.5 million in fiscal year 2022.

The Hospital began operations at its current location in 1974, when it was agreed that, in order to merge the two existing community hospitals into one, a tax levy for revenue bonds would be issued for the construction of a new facility. The original Board of Directors of the Hospital promised the community that once the bonds were repaid, the Hospital would be self-sufficient and would no longer require taxes for operations. The Hospital retired its original revenue bonds in 1986 and has not levied a tax to residents of the district since that time.

The Hospital's operating loss of approximately \$32.8 million in fiscal year 2023 compared unfavorably to the Hospital's budgeted operating income of approximately \$5.5 million. This operating loss in fiscal year 2023 represents an improvement from the operating loss of approximately \$60.5 million in fiscal year 2022. The main reasons that the operating results in fiscal year 2023 were lower than budgeted but improved from fiscal year 2022 are:

- Net patient service revenue was 13.5% higher in fiscal year 2023 as compared to fiscal year 2022 and only 0.80% lower than budget. Surgical case volumes decreased 8.8% from the prior year due to movement of eye procedures to the local ambulatory surgery center.
- Revenue cycle issues identified in fiscal year 2022 were worked on in fiscal year 2023 and fewer denials were seen in fiscal year 2023. The focus on improved revenue cycle also lead to better cash collections and approximately a 3.6% overall net collection rate increases from FY2022.
- Total salaries and benefits increased approximately \$3.5 million (4.4%) in fiscal year 2023 as compared to fiscal year 2022 and approximately \$3.9 million (4.9%) higher than budget due to settling the expired contract with United Food and Commercial Workers Union (UFCW) and planned increases due to the Oregon Nurses Association (ONA) settlement in the prior fiscal year. This increase in salaries and benefits expense was offset by a decreased expense in temporary (contract) labor of approximately \$3.6 million (11.6%) as compared to fiscal year 2022.
- The Hospital currently has three unions with whom it must negotiate. As of June 30, 2023, approximately 50% of the Hospital's employees are covered under a collective bargaining agreement (CBA) with the UFCW, and the new contract expires in June 30, 2025. Approximately 31% of the Hospital's employees are covered under a CBA with the Oregon Nurses Association (ONA), which expires on June 30, 2024.
- Professional fees and purchased services expense decreased significantly (12.2%) primarily due to the decreased contract labor mentioned above, as well as the contributions made in fiscal year 2022 to the local physicians with their EPIC system.
- Depreciation and amortization expense rose slightly at approximately \$12.1 million in fiscal year 2023 compared to approximately \$12.0 million fiscal year 2022.

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2023 and 2022

- Supplies and other expenses decreased 3.5% from fiscal year 2022, despite a nearly 14% increase in Net Patient Service Revenue. The leading cause of this decrease was pharmaceutical expense. Total expenditures for supplies and pharmaceuticals were approximately \$40.7 million in 2023 compared to approximately \$42.9 million in fiscal year 2022, a decrease of approximately 5.0%. The Hospital election into 340b pricing at the end of fiscal year 2022 was the driver of the reduced expense in fiscal year 2023.

The Hospital oftentimes provides care for patients who have little or no health insurance or other means of repayment. As discussed above, this service to the community is consistent with the goals established for the Hospital when the current facility was built. When patients meet the Hospital's established charity guidelines, all or part of their bill is written off. In fiscal years 2023 and 2022, the amount of charity care (at gross charges) was approximately \$3.7 million and \$2.0 million, respectively. Because there is no expectation of repayment, charity care is not reported as net patient service revenue of the Hospital. There are specific guidelines used to apply for charity care; however, many patients who would qualify for charity care do not take the time to apply, so they cannot be included in charity allowances according to State and Federal regulations. The Hospital continues to encourage these individuals to apply for charity care and will continue to assist such individuals in the process, as necessary. In addition, the Hospital's provision for bad debts was approximately \$2.6 million and \$3.5 million in fiscal years 2023 and 2022, respectively.

In addition to the charity care provided and bad debt write-offs, the Hospital provides care to government sponsored programs such as Medicare, Medicaid, and the Oregon Health Plan, where a large discount from billed charges is mandated. In many cases, the payment received is less than the actual cost of treatment. The aggregate amount of these contractual deductions in fiscal years 2023 and 2022 was approximately \$247.0 million and \$264.4 million, respectively.

Medicare Advantage plans are plans that are contracted with commercial payors but are funded and follow traditional Medicare guidelines. In many cases, the payment received is less than the actual cost of treatment. The aggregate amount of these contractual deductions in fiscal years 2023 and 2022 was approximately \$60.6 million and \$51.4 million, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, other governmental entities, health maintenance organizations, and preferred provider organizations to provide medical services to subscribing participants. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates based on the type of service delivered, all of which are generally less than the Hospital's billed charges. The aggregate amount of these other contractual deductions in fiscal years 2023 and 2022 was approximately \$58.7 million and \$55.7 million, respectively.

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2023 and 2022

Nonoperating Revenue and Expenses

In most years, nonoperating revenue and expenses generally consist primarily of interest income, realized and unrealized gains and losses on investments, noncapital contributions, and interest expense. The investment income (loss) is earned on long-term investments which may only be invested in allowable fixed-income investments pursuant to State regulations. The net investment loss was approximately \$1.1 million in fiscal year 2023 compared with a net investment loss of approximately \$7.3 million in fiscal year 2022. Included in net investment loss in fiscal year 2023 was approximately \$216 thousand of net unrealized market losses and approximately \$183 thousand in investment fees. In fiscal years 2022, the Hospital recognized income from Provider Relief Funds of approximately \$7.5 million while zero income was recognized in fiscal year 2023 due to the government termination of the COVID Pandemic. Revenues for Kids Hope Center, an all-inclusive Center for child abuse where forensic child interviews and medical examinations are conducted, and Bright Beginnings Learning Center, a community daycare and early learning center are also recognized in this category. These revenues contributed approximately \$1.3 million and approximately \$1.5 million in fiscal years 2023 and 2022, respectively. Interest expense increased from approximately \$1.4 million in fiscal year 2022 to approximately \$2.5 million in fiscal year 2023, as the Hospital's \$50 million borrowing from BOTW was in default for most of fiscal year 2023. At the end of fiscal year 2023 the Hospital and BOTW agreed to restructure the Hospital's debt to allow for the Hospital to exit default and continue its planning to resume financial viability. This agreement was finalized in October 2023. As previously discussed, the Hospital does not receive any tax revenue even though it is a district hospital.

The Hospital's cash flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenue and expenses, as discussed earlier. The largest cash outflows each year are typically the payments to suppliers and contractors, which totaled approximately \$121.9 million and \$130.8 million in fiscal years 2023 and 2022, respectively, and payments to employees, which totaled approximately \$105.9 million and \$101.6 million in fiscal years 2023 and 2022, respectively. In the aggregate, the Hospital had a negative cash flow from operations of approximately \$22.1 million. In addition, the Hospital repaid approximately \$7.2 million in Medicare accelerated payments, and the paid \$8.0 million in cash to close its revolving line of credit with BOTW.

Capital assets

As of June 30, 2023, the Hospital had approximately \$76.5 million invested in capital assets, net of accumulated depreciation and amortization, as detailed in Note 4 to the financial statements. In fiscal years 2023 and 2022, the Hospital purchased or constructed new equipment and capital improvements costing approximately \$5.6 million and \$7.4 million, respectively. In addition, the Hospital capitalized various lease contracts with a net balance of approximately \$3.1 million as of June 30, 2023 under recent GASB standards. Furthermore, capital assets at June 30, 2023 include approximately \$8.4 million of subscription-based information technology arrangements (SBITA) that are required to be capitalized under a GASB standard that the Hospital adopted in fiscal year 2020.

Long-term debt

As of June 30, 2023, the Hospital had \$62.2 million in long-term obligations outstanding. This compares to approximately \$67.7 million in long-term obligations outstanding as of June 30, 2022 (including the current portion). Long-term obligations outstanding as of June 30, 2023 consist of approximately \$46.3 million in borrowings under a term loan owed to BOTW.

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital
Management's Discussion and Analysis
Years Ended June 30, 2023 and 2022

In December 2020, the Hospital entered into a \$50.0 million term loan agreement (the Note Payable) with BOTW. The proceeds of the Note Payable were used to help finance the new EPIC system and a new human resources and financial system and to repay the Hospital's pre-existing debt to Umpqua Bank. Under terms of the Note Payable, the Hospital was required to make interest-only payments in monthly installments of approximately \$100,000 through January 2022. Beginning in February 2022, the Hospital was required to make payments in monthly installments of principal and interest of approximately \$220,000, with any remaining outstanding principal and accrued interest due in December 2030. The initial interest rate on the Note Payable was 2.34%, and the rate is adjusted quarterly based on the Hospital's most recent debt service coverage ratio for the twelve-month period then ended. The quarterly interest rates under terms of the Note Payable range from 2.34% to 2.84%, unless the Hospital is in default (see below) under terms of the Note Payable, in which case, interest is payable at a default rate. The default rate is a variable rate of interest equal to the greater of (1) BOTW's prime interest rate plus 3.00% (8.25% as of June 30, 2023) or (2) the Federal Funds Rate plus 5.50% (5.08% as of June 30, 2023), unless BOTW provides the Hospital with a forbearance period (see below). The Note Payable is secured by a pledge of the Hospital's revenues. Outstanding borrowings under the Note Payable as of June 30, 2023 were \$47.9 million. The Note Payable may be prepaid in whole or in part, with a prepayment penalty. The Note Payable includes requirements to meet certain financial and operating covenants.

Also in December 2020, the Hospital entered into a \$10,000,000 revolving line of credit agreement (the Line of Credit) with BOTW which expired on December 30, 2022. Borrowings under the Line of Credit generally bear interest at the current one-month London Interbank Offered Rate (LIBOR) (1.79% as of June 30, 2022) plus a quarterly margin interest rate. The quarterly margin interest rates under terms of the Line of Credit range from 1.50% to 2.25%, unless the Hospital is in default under terms of the Line of Credit, in which case, interest is payable at a default rate. The default rate for the Line of Credit is calculated in the same manner as the default rate for the Note Payable. Borrowings under the Line of Credit are secured by a pledge of the Hospital's revenues. Outstanding borrowings under the Line of Credit as of June 30, 2022 were \$8,000,000. There were no outstanding borrowings under the Line of Credit as of June 30, 2023. The Line of Credit includes the same requirements to meet certain financial and operating covenants as the Note Payable.

In the event of a default by the Hospital - such as failing to make payments on the Note Payable or the Line of Credit as they are due or failing to comply with the required financial and operating covenants (including a "Debt Service Coverage" (DSC) covenant) - all amounts due under both the Note Payable and the Line of Credit may, at BOTW's discretion, become immediately due and payable by the Hospital. For the twelve-month period ended March 31, 2022, and the year ended June 30, 2022, the Hospital was not in compliance with the DSC covenant, and BOTW had not provided a waiver of such covenant violations. As a result of the covenant violations, borrowings under the Note Payable and Line of Credit bear interest at the default rate beginning on March 31, 2022 (unless granted a forbearance period), and BOTW could demand repayment of all amounts outstanding under the Note Payable and Line of Credit agreements. Accordingly, in fiscal year 2022 the \$47.9 million of the Note Payable that is due in years subsequent to 2023 had been classified as a current liability in the Hospital's statement of net position as of June 30, 2022.

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2023 and 2022

The Hospital and BOTW entered into a series of forbearance agreements in fiscal year 2023 and agreed to modify loan terms at the end of fiscal year 2023. The closing of this agreement occurred in October 2023 and modified the terms of the loan as to allow the Hospital to exit default. The Hospital agreed to an increased interest rate ranging from 4.00% to 5.00%, pledged real estate collateral and agreed to more frequent financial reporting. Due to this agreement the Hospital was able to reclassify the \$46.3 million of the Note Payable that is due in years subsequent to 2024 as a non-current liability.

Other economic factors

The Hospital is Coos County's largest employer, followed by The Mill Casino, the local school districts, and Southwestern Oregon Community College. In recent years, the area has experienced significant growth in the retiree population moving to the coast from California and other states, and tourism is growing as an important contributor to the local economy. The South Coast Development Council (the SCDC) was started in 2001 to help attract industry and business to the Southern Oregon Coast. The unemployment rate in Coos County was 4.7% in August 2023 as compared to 5.3% as of July 2022. However, it is still higher than the pre-pandemic rate of 3.8% in November 2019. Tourism and local restaurants have been seriously impacted by the COVID-19 pandemic, and the recovery has been slow. Recent development of a Coos Bay Village has brought new businesses to the area. The developers of that development launched a new development, Teakwood Plaza. Overall, the Teakwood Plaza is about 50,000 square feet. In addition, in June 2023, the Oregon International Port of Coos Bay obtained \$40 million from the Oregon Legislature to dredge and expand the existing waterway to accommodate large container ships. The Port of Coos Bay has also submitted a Mega Grant proposal in August 2023. The Hospital continues to closely monitor external forces that affect the Hospital's financial position in order to make timely operational changes, as necessary, to adapt.

Contacting the Hospital's financial management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Mary Lou Tate, Chief Financial Officer, at Bay Area Hospital, 1775 Thompson Road, Coos Bay, Oregon 97420.

Financial Statements

Bay Area Health District, dba Bay Area Hospital
Statements of Net Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and cash equivalents	\$ 12,030,483	\$ 17,016,994
Patient accounts receivable, net of allowance for doubtful accounts of \$5,002,271 in 2023 and \$2,615,664 in 2022	19,921,644	24,465,619
Supplies inventory	5,205,080	6,261,727
Current portion of assets limited as to use	-	7,156,518
Prepaid expenses and other current assets	<u>4,530,204</u>	<u>4,410,739</u>
Total current assets	<u>41,687,411</u>	<u>59,311,597</u>
Assets limited as to use, net of current portion	53,401,226	80,175,078
Capital assets		
Depreciable capital assets, net	74,844,553	78,496,525
Nondepreciable capital assets	<u>1,690,790</u>	<u>4,142,629</u>
Total capital assets, net	<u>76,535,343</u>	<u>82,639,154</u>
Other assets		
Lease right-of-use assets, net	3,126,052	2,642,843
Subscription based right-of-use assets, net	8,351,188	10,371,423
Other noncurrent assets	<u>1,096,420</u>	<u>1,135,689</u>
Total other assets	<u>12,573,660</u>	<u>14,149,955</u>
Total assets	<u>184,197,640</u>	<u>236,275,784</u>
Deferred outflows of resources		
Defined benefit pension plan	13,186,347	17,335,078
Postemployment health care plan	<u>399,007</u>	<u>543,823</u>
Total deferred outflows of resources	<u>13,585,354</u>	<u>17,878,901</u>
Total assets and deferred outflows of resources	<u><u>\$ 197,782,994</u></u>	<u><u>\$ 254,154,685</u></u>

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital
Statements of Net Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current liabilities		
Accounts payable	\$ 7,192,827	\$ 11,140,690
Accrued liabilities		
Payroll, payroll taxes, and withholdings	3,580,718	3,092,600
Paid time off	5,389,005	5,393,829
Other	6,307,594	4,338,633
Estimated third-party payor settlements payable, net	5,676,967	6,229,262
Revolving line of credit	-	8,000,000
Current portion of long-term debt	1,539,671	1,504,097
Current portion of lease obligations	814,551	646,997
Current portion of subscription liabilities	1,191,465	1,157,480
Long-term obligations in default classified as current	-	47,876,185
Current portion of Medicare accelerated payments	-	7,156,518
	<u>31,692,798</u>	<u>96,536,291</u>
Total current liabilities		
Noncurrent liabilities		
Long-term debt, net of current portion	46,339,829	-
Long-term portion of lease obligation	2,361,292	2,018,195
Long-term portion of subscription liabilities	3,245,226	4,436,691
Net pension liability	7,133,416	8,910,885
Other noncurrent liabilities	3,093,390	4,468,637
	<u>62,173,153</u>	<u>19,834,408</u>
Total noncurrent liabilities		
Total liabilities	<u>93,865,951</u>	<u>116,370,699</u>
Deferred inflows of resources		
Defined benefit pension plan	8,863,049	8,634,580
Postemployment health care plan	1,292,853	289,152
	<u>10,155,902</u>	<u>8,923,732</u>
Total deferred inflows of resources		
Total liabilities and deferred inflows of resources	<u>104,021,853</u>	<u>125,294,431</u>
Net position		
Net investment in capital assets	32,520,549	38,013,775
Unrestricted	61,240,592	90,846,479
	<u>93,761,141</u>	<u>128,860,254</u>
Total net position		
Total liabilities, deferred inflows of resources, and net position	<u>\$ 197,782,994</u>	<u>\$ 254,154,685</u>

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital
Statements of Revenue, Expenses and Changes in Net Position
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Net patient service revenue - net of provision for bad debts of \$2,597,567 (\$3,526,733 in 2022)	\$ 205,096,629	\$ 180,653,353
Other operating revenue	<u>2,516,598</u>	<u>1,417,189</u>
Total operating revenue	<u>207,613,227</u>	<u>182,070,542</u>
OPERATING EXPENSES		
Salaries and benefits	108,244,634	99,683,870
Supplies and other	57,294,342	59,355,744
Professional fees and purchased services	62,823,354	71,565,457
Depreciation and amortization	<u>12,062,291</u>	<u>11,978,518</u>
Total operating expenses	<u>240,424,621</u>	<u>242,583,589</u>
OPERATING LOSS	<u>(32,811,394)</u>	<u>(60,513,047)</u>
NONOPERATING (EXPENSES) INCOME		
Investment loss, net	(1,091,923)	(7,272,373)
Government stimulus income	-	7,455,649
Noncapital contributions	1,340,012	1,553,435
Interest expense	<u>(2,535,808)</u>	<u>(1,380,795)</u>
Total nonoperating (expenses) income	<u>(2,287,719)</u>	<u>355,916</u>
DECREASE IN NET POSITION	(35,099,113)	(60,157,131)
NET POSITION, beginning of year	<u>128,860,254</u>	<u>189,017,385</u>
NET POSITION, end of year	<u><u>\$ 93,761,141</u></u>	<u><u>\$ 128,860,254</u></u>

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	\$ 209,088,309	\$ 197,285,491
Payments to suppliers and contractors	(121,893,780)	(130,826,838)
Payments to employees	(105,873,543)	(101,621,137)
Other receipts and payments – net	(3,381,083)	(18,736,531)
Net cash used by operating activities	(22,060,097)	(53,899,015)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipt of government stimulus grants	-	6,955,649
Noncapital contributions	1,340,012	1,553,435
Net cash provided by noncapital financing activities	1,340,012	8,509,084
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets – net	(3,176,155)	(7,369,198)
Net borrowings under long-term line of credit	(8,000,000)	8,000,000
Principal paid on long-term debt	(1,500,782)	(2,476,741)
Payments lease obligations	(734,648)	-
Payments of subscription liabilities	(1,157,480)	-
Interest paid on long-term obligations	(2,535,808)	(1,380,795)
Net cash used by capital and related financing activities	(17,104,873)	(3,226,734)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases on investments	(46,094,336)	(238,393,986)
Proceeds from sales of investments	77,463,450	256,837,186
Other	2,561,256	(5,965,557)
Investment (loss) income – net	(1,091,923)	7,285,314
Net cash provided by investing activities	32,838,447	19,762,957
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,986,511)	(28,853,708)
CASH AND CASH EQUIVALENTS, beginning of year	17,016,994	45,870,702
CASH AND CASH EQUIVALENTS, end of Year	\$ 12,030,483	\$ 17,016,994

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
RECONCILIATION OF OPERATING LOSS TO		
NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (32,811,394)	\$ (60,513,047)
Adjustments to reconcile operating loss to net cash		
used by operating activities		
Depreciation and amortization	9,279,966	9,564,242
Amortization of lease right-of-use asset	762,090	507,140
Amortization of subscription assets	2,020,235	1,907,136
Provision for bad debts	2,597,567	3,526,733
Changes in certain operating assets and liabilities		
Patient accounts receivable	1,946,408	9,504,224
Supplies inventory	1,056,647	27,714
Prepaid expenses and other current assets	(119,465)	410,314
Net pension asset and pension liability	2,599,731	(1,252,077)
Other noncurrent assets	39,269	782,948
Accounts payable	(3,947,863)	1,720,918
Accrued liabilities	2,452,255	(3,462,600)
Estimated third-party payor settlements payable, net	(552,295)	3,601,181
Medicare accelerated payments	(7,156,518)	(20,283,806)
Other noncurrent liabilities	(226,730)	59,965
Net cash used by operating activities	<u>\$ (22,060,097)</u>	<u>\$ (53,899,015)</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING		
AND FINANCING ACTIVITIES		
Lease assets obtained in exchange for lease liabilities	<u>\$ 1,245,299</u>	<u>\$ 1,572,561</u>
Recognition of lease assets and liabilities upon adoption of Governmental		
Accounting Standard Board Statement No. 87, Leases	<u>\$ -</u>	<u>\$ 1,577,422</u>
Subscription-based information technology arrangement (SBITA) assets		
obtained in exchange for SBITA liabilities	<u>\$ -</u>	<u>\$ 736,855</u>

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital
Statement of Fiduciary Net Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 472,713	\$ 411,202
Investments at fair value – mutual funds	<u>49,745,873</u>	<u>65,742,205</u>
 Total assets	 <u>50,218,586</u>	 <u>66,153,407</u>
 Net position restricted for pension benefits	 <u><u>\$ 50,218,586</u></u>	 <u><u>\$ 66,153,407</u></u>

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital
Statement of Changes in Fiduciary Net Position
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Additions		
Investment income		
Net (depreciation) appreciation in fair value of investments	\$ (12,278,764)	\$ 7,033,267
Dividends	<u>1,151,425</u>	<u>923,248</u>
Total investment (loss) income	<u>(11,127,339)</u>	<u>7,956,515</u>
Employer contributions	200,000	500,000
Total (deduction) additions	<u>(10,927,339)</u>	<u>8,456,515</u>
Deductions		
Benefits paid to participants	<u>5,007,482</u>	<u>4,832,124</u>
Total deductions	<u>5,007,482</u>	<u>4,832,124</u>
(Decrease) increase in net position	(15,934,821)	3,624,391
Net position restricted for pension benefits, beginning of year	<u>66,153,407</u>	<u>62,529,016</u>
Net position restricted for pension benefits, end of year	<u><u>\$ 50,218,586</u></u>	<u><u>\$ 66,153,407</u></u>

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

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

Business and organization – Bay Area Health District, dba Bay Area Hospital (the Hospital), was incorporated as a municipal corporation in Coos County, Oregon in June 1952. The Hospital provides various health care and health care related services to the citizens of Coos Bay and North Bend, Oregon and to others in the Southern Oregon Coastal area.

The Hospital is the trustee, or fiduciary, for a defined benefit employee pension plan (the Defined Benefit Plan) (see Note 9). The Hospital is responsible for the assets of the Defined Benefit Plan which – because of a trust arrangement – can be used only for the trust beneficiaries. All of the Hospital's fiduciary activities (which are solely related to the Defined Benefit Plan) are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 20 and 21. These activities are excluded from the Hospital's other financial statements, because the Hospital cannot use these assets to finance its operations. The Hospital is responsible for ensuring that the assets reported in this fiduciary fund are used for their intended purposes.

The Hospital receives support from Bay Area Hospital Auxiliary (the Auxiliary). The Auxiliary is a separate nonprofit corporation and a tax-exempt organization under the provisions of the Internal Revenue Code (the Code).

The Hospital has also established the Bay Area Community Information Agency (BACIA), a separate governmental agency with the purpose of facilitating the exchange of electronic health care information among health care providers in the Hospital's operating region. BACIA's board of directors is appointed by the Hospital's Board of Directors (the Board) and is required to include at least one member of the Board or management of the Hospital (Management). Although the Hospital has agreed to provide support to fund BACIA's operations as needed, no funding was required for the years ended June 30, 2023 and 2022, and the Hospital does not anticipate that such funding will be required in the near-term.

Basis of presentation and accounting – The accompanying financial statements include the accounts and transactions of the Hospital and – as described above – the Hospital's fiduciary activities related to the defined benefit pension plan. The accompanying financial statements do not include the accounts and transactions of the Auxiliary or BACIA, as such accounts and transactions are not significant to the Hospital's separate financial statements. The Hospital is not a component unit of any other organization.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S.), as applied to governmental units (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Accordingly, the Hospital utilizes the enterprise fund method of accounting, whereby revenue, income, gains, expenses, and losses are recognized on the accrual basis using the economic resources measurement focus. Substantially all revenue, income, gains, expenses, and losses are subject to accrual. Since the Hospital is only engaged in business-type activities and fiduciary activities, it is required to present only the financial statements required for enterprise funds and fiduciary funds.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Use of estimates – The preparation of financial statements in accordance with GAAP requires 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 financial statements and the reported amounts of revenue, income, gains, expenses, and losses during the reporting period. Actual results could differ from those estimates.

Budgets – The Hospital is required to prepare and adopt an annual operating budget in accordance with Oregon Local Budget Law. This budget is prepared differently, in some respects, from GAAP. The differences are primarily as follows:

- Principal debt service payments are treated as expenditures for budgetary purposes.
- Purchases of capital assets are treated as capital outlay expenditures for budgetary purposes.
- Depreciation expense is not budgeted.

Expenditures are controlled by appropriations adopted by resolutions of the Board, as permitted by Oregon Local Budget Law. The Hospital makes annual appropriations by object classification (i.e., personal services, materials and services, capital outlay, and debt service). Unexpended appropriations lapse at the end of each fiscal year.

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 investments (see Note 2).

Patient accounts receivable and allowance for doubtful accounts – The collection of receivables from third-party payors and patients is the Hospital's primary source of cash and is critical to its operating performance. When the Hospital provides care to patients, it does not require collateral; however, it maintains an estimated allowance for doubtful accounts. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but the patient is responsible for the remaining amounts outstanding (generally deductibles and co-payments). The Hospital does not maintain a significant allowance for doubtful accounts related to patient accounts receivable from third-party payors, nor has it historically had significant bad debt write-offs of patient accounts receivable from third-party payors. However, for services provided to patients who have third-party coverage, the Hospital records the related patient service revenue and patient accounts receivable net of contractual discounts and allowances.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

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

Significant concentrations of net patient accounts receivable as of June 30, 2023 and 2022 were approximately as follows:

	2023	2022
Medicare	32%	47%
Commercial insurance	35%	40%
Medicaid and Oregon Health Plan (OHP)	24%	7%
Other negotiated contracts	4%	4%
Self-pay	5%	2%
	<u>100%</u>	<u>100%</u>

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

Investments – Investments consist of assets (exchange-traded funds (ETFs), a money market account, mortgage-backed securities, U.S. Government Agency obligations, corporate obligations, U.S. Treasury securities, and municipal bonds) from the Medicare accelerated payment program, from the Provider Relief Funds, and internally designated for capital acquisitions (internally designated assets) designated by the Board for future capital acquisitions (over which the Board retains control and may, at its discretion, subsequently use for other purposes) (see Note 3). Investments are stated at fair value in the accompanying statements of net position (see Note 14 for a discussion of fair value measurements). Interest, dividends, and gains (losses) – both realized and unrealized – on these investments are included in nonoperating revenue when earned (incurred).

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Capital assets – The Hospital considers an asset which has an estimated useful life in excess of one year to be a capital asset. Purchased capital assets costing more than \$5,000 are recorded at historical cost. Capital assets costing \$5,000 or less are recorded as expense in the year of acquisition. Contributed capital assets are recorded at their estimated fair value at the time of their donation. Improvements and replacements of capital assets are capitalized. Routine maintenance and repairs are charged to expense as incurred.

All capital assets other than land are depreciated over their estimated useful lives using the straight-line method. Leases and subscription-based information technology (IT) arrangements (SBITAs) that are capitalized in accordance with GASB standards (see below) are included in capital assets in the accompanying statement of net position and are amortized over the lease and/or contract terms. Such amortization is included in depreciation and amortization expense in the accompanying financial statements. Depreciation of assets in construction in progress begins when such assets are placed in service. Useful lives of depreciable assets are based on guidelines published by the American Hospital Association.

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

Leases – The Hospital has various leasing arrangements, which are primarily for certain real property such as administration offices, as well as for certain medical and office equipment. The Hospital determines if an arrangement is a lease at inception of the contract. For each lease, the Hospital records a lease asset (representing the right to use the underlying asset for the lease term) and a lease liability (representing the obligation to make lease payments required under the terms of the lease). Lease assets and lease liabilities are recognized at the commencement date based on the present value of lease payments required over the lease term. The Hospital uses its estimated incremental borrowing rate - derived from information available at the lease commencement date - as the discount rate when determining the present value of lease payments.

Many of the Hospital's lease agreements include one or more renewal options. Renewal terms generally extend the related lease from one to five years at the then market rate of rental payment or at a predetermined monthly payment in accordance with the lease agreement. All such renewal options are at the Hospital's discretion. Renewal options are evaluated at the commencement of each lease; only those that are reasonably certain of exercise are included in determining the appropriate lease term and for purposes of calculating the initial lease asset and lease liability.

Certain lease agreements for real property require variable lease payments based on actual common area maintenance expenses and/or real estate taxes. Variable lease payments may also include escalating rent payments that are not fixed at lease commencement but are based on an index that is determined in future periods based on changes in the Consumer Price Index or other measures of inflation. These variable lease payments are recognized in operating expenses but are not included in the lease asset or lease liability balances. The Hospital's lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Subscription-Based Information Technology Arrangements (SBITAs) – A SBITA is a contract that conveys to the Hospital control of the right to use another party's (i.e., a vendor's) information technology (IT) software – alone or in combination with tangible capital assets – as specified in the contract for a period of time in an exchange or exchange-like transaction. The Hospital has various SBITAs, which are primarily for a human resources, accounting, and payroll system, as well as for certain other IT software. The Hospital determines if an arrangement is a SBITA at inception of the contract. For each SBITA, the Hospital records a right-to-use subscription asset (i.e., an intangible asset representing the right to use the underlying IT software for the contract term) and a corresponding subscription liability (representing the obligation to make payments required under the terms of the contract). Subscription-based IT assets and liabilities are recognized at the commencement of the subscription term – which occurs when the initial implementation stage of an IT project is completed – based on the present value of subscription payments expected to be made during the subscription term. The Hospital uses its estimated incremental borrowing rate – derived from information available at the SBITA commencement date – as the discount rate when determining the present value of subscription payments.

Certain of the Hospital's SBITAs include one or more renewal options. Renewal terms generally extend the related subscription period for multiple one-year periods at a predetermined monthly payment in accordance with the SBITA contract. All such renewal options are at the Hospital's discretion. Renewal options are evaluated at the commencement of each SBITA; only those that are reasonably certain of exercise are included in determining the appropriate subscription term and for purposes of calculating the initial right-to-use subscription asset and subscription liability.

Paid time off (PTO) – The Hospital's employees earn PTO at varying rates depending on years of service. Employees can accumulate unused PTO from one year to the next, except for PTO in excess of 525 hours. Twice a year, employees can request that up to 80 hours of their unused PTO in excess of 80 hours be paid to them in cash, provided that they have taken at least 80 hours of PTO during the previous year. All unused PTO is paid to employees in cash upon their termination of employment from the Hospital, if proper notice has been given.

Net position, deferred outflows of resources, and deferred inflows of resources – A deferred outflow of resources represents the consumption of net position that is applicable to a future reporting period. A deferred inflow of resources represents the acquisition of net position that is applicable to a future reporting period. As of June 30, 2023 and 2022, all of the Hospital's deferred outflows and inflows of resources related to the Hospital's defined benefit pension plan (see Note 9) and postemployment health care plan (see Note 11).

Net position of municipal hospitals is typically classified into three broad components as follows:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and net of the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

- *Restricted net position* can include two components: *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by bond indentures, and *restricted nonexpendable net position* equals the principal portion of permanent endowments. As of June 30, 2023 and 2022, the Hospital had no significant *restricted net position*.
- *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted expendable* or *restricted nonexpendable net position*.

Net patient service revenue – The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements primarily include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments, and capitated payments. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered and includes estimates for potential retroactive revenue adjustments under reimbursement agreements with third-party payors. Such estimates are adjusted in future periods as final settlements are determined.

A significant portion of the Hospital's services is provided to Medicare, Medicaid, and Oregon Health Plan (OHP) patients under contractual arrangements. Inpatient acute care services rendered by the Hospital to Medicare and Medicaid program beneficiaries are generally 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-adjusted 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. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. Home health services related to Medicare beneficiaries are reimbursed under a prospective payment system methodology. Certain outpatient services related to Medicare and Medicaid beneficiaries are reimbursed under 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 and Medicaid. The Hospital's cost reports have been audited and final settled by the Medicare fiscal intermediary through June 30, 2018 and Medicaid through June 30, 2017.

The Hospital receives federal funding through the Disproportionate Share Hospital (DSH) Medicaid program. DSH provides additional funding to hospitals that have a disproportionate share of uncompensated care and Medicaid patients, and funds are distributed to hospitals using an agreed-upon distribution methodology. During the year ended June 30, 2022, the Hospital received an insignificant amount of DSH funds, which is recorded in net patient service revenue in the accompanying statement of revenue, expenses, and changes in net position. During the year ended June 30, 2022, the Hospital's 2018 and 2019 DSH funds were audited by the Oregon Health Authority (OHA), and, as a result, it is estimated that the Hospital will need to return DSH funds aggregating approximately \$1,999,000 for those two years. The Hospital is contesting the results of the OHA audit, and the ultimate resolution of this process is currently uncertain. During the appeal, the Hospital has to return DSH funds that were received for 2020 and 2021 aggregating approximately \$1,590,000. Accordingly, the Hospital has recorded a liability for such amounts totaling approximately \$3,589,000 which is included in estimated third-party payor settlements payable in the accompanying statement of net position.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Services rendered to OHP beneficiaries are partially reimbursed under a capitation agreement. During the years ended June 30, 2023 and 2022, the Hospital received approximately \$21,495,000 and \$19,904,000, respectively, in capitation payments related to OHP beneficiaries (see Note 13), which are included in net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position.

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

Gross and net patient service revenue for services provided by the Hospital to Medicare, Medicaid, and OHP patients aggregated approximately \$320,000,000 and \$120,000,000, respectively, for the year ended June 30, 2023, and \$370,000,000 and \$87,000,000, respectively for the year ended June 30, 2022.

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. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates based on the type of service delivered.

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 or underinsured individuals with an annual household income at, or less than, 200% 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 uninsured individuals with an annual household income of between 200% and 450% of the Guidelines. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported as net patient service revenue (see Note 8).

Operating revenue and expenses – The Hospital's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenue (expenses) – including investment income - net, grants and contributions received for purposes other than capital asset acquisition, government stimulus income, and gains and losses on disposals of capital assets – are reported as nonoperating revenue (expenses). Operating expenses include all expenses incurred to provide health care services, other than financing costs.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Grants and contributions – Periodically, the Hospital receives grants from other municipalities, as well as contributions from individuals and private organizations. During the years ended June 30, 2023 and 2022, the Hospital received grants of \$0 and \$6,955,649, respectively, from the Department of Health and Human Services (HHS) under the Acts. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted either for specific operating purposes or for capital purposes. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted for capital acquisitions would be reported after nonoperating revenue and expenses in the statement of revenue, expenses, and changes in net position.

Oregon provider tax – Oregon levies a "provider tax" on certain qualifying hospitals, including the Hospital, to provide additional funding for OHP. The tax is based on net patient service revenue, as adjusted in accordance with the rules governing the program. The Hospital recorded provider taxes of approximately \$10,900,000 million and \$10,200,000 million for the years ended June 30, 2023 and 2022, respectively, which are included in supplies and other operating expenses in the accompanying statements of revenue, expenses, and changes in net position.

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 service revenue in the accompanying statement of revenue, expenses, and changes in net position. Prepaid expenses and other current assets include approximately \$3 million and \$1.3 million of provider taxes receivable due from OAHHS as of June 30, 2023 and 2022, respectively, and other accrued liabilities include approximately \$3 million and \$1.3 million of provider taxes payable to OAHHS as of June 30, 2023 and 2022, respectively, in the accompanying statement of net position. Generally, the amount of annual receipts from OAHHS matches the annual amount of taxes paid.

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; 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 insurance coverage in any of the past three years. The Hospital is self-insured for employee health care claims up to \$250,000. Employee health care claims are accrued as the incidents which give rise to them become known. The provision and accrual for estimated employee health care claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are based upon the estimated cost of settlement. Management believes that adequate amounts have been included in accrued liabilities accrued in the accompanying financial statements to cover estimated employee health care claims.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Federal and state income taxes – The Hospital is a municipal corporation. In addition, the Internal Revenue Service (IRS) has issued a determination letter stating that the Hospital is exempt from federal income taxes under Section 501(c)(3) of the Code. Accordingly, only unrelated business income is subject to federal or state income taxes. 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 financial statements.

The Hospital is classified as an affiliate of a governmental unit by the IRS. Therefore, the Hospital is not required to file a federal information return in the U.S. or a state information return in Oregon unless it has unrelated business income. Accordingly, the Hospital did not file such returns for the years ended June 30, 2023 and 2022.

Note 2 – Deposits and Investments

Cash and investments as of June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Additions		
Investment income		
Net (depreciation) appreciation in fair value of investments	\$(12,278,764)	\$ 7,033,267
Dividends	1,151,425	923,248
	<u>(11,127,339)</u>	<u>7,956,515</u>
Total investment (loss) income		
Employer contributions	200,000	500,000
	<u>(10,927,339)</u>	<u>8,456,515</u>
Deductions		
Benefits paid to participants	5,007,482	4,832,124
	<u>5,007,482</u>	<u>4,832,124</u>
Total deductions		
(Decrease) increase in net position	(15,934,821)	3,624,391
Net position restricted for pension benefits, beginning of year	<u>66,153,407</u>	<u>62,529,016</u>
Net position restricted for pension benefits, end of year	<u>\$ 50,218,586</u>	<u>\$ 66,153,407</u>

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Hospital is required by the Oregon Revised Statutes (ORS) Chapter 295 (ORS 295) to maintain any deposits and money market accounts in financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) coverage at certain "qualified depositories." As of and for the year ended June 30, 2023 and 2022 all of the Hospital's deposits and money market accounts in financial institutions in excess of FDIC coverage were maintained at "qualified depositories."

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

As of June 30, 2023 and 2022, the Hospital had investments in U.S. Treasury securities, a money market account with an investment broker, mortgage-backed securities, U.S. Government agency obligations, corporate obligations, and municipal bonds. Management believes that the Hospital's credit risk with respect to these investments is minimal due to the diversity of the individual investments and the financial strength of the entities which have issued the securities or instruments. However, due to changes in economic conditions, government intervention, and interest rates, the fair value of the Hospital's investments can be volatile. Consequently, the fair value of the Hospital's investments can significantly change in the near-term as a result of such volatility.

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

As of June 30, 2023 and 2022, the Hospital's investments were rated from A-2 to AAA by Moody's Investor Service or Standard & Poor's Corporation.

Custodial credit risk, deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit insurance policy for custodial credit risk. As of June 30, 2023 and 2022, the Hospital had deposits in two financial institutions exposed to custodial credit risk as follows:

Insured by the Federal Deposit Insurance Corporation	\$ 500,000
Collateralized with securities held by the pledging financial institution's trust department or agent in other than the hospital's name	<u>14,081,439</u>
Total	<u><u>\$ 14,581,439</u></u>

The Hospital's deposits at financial institutions are insured by the FDIC up to a combined maximum of \$250,000 per financial institution.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

ORS 295 governs the collateralization of Oregon public funds. Oregon's Public Funds Collateralization Program (the PFCP) was created by the Office of the Oregon State Treasurer (the OST) to facilitate bank depository, custodian, and public official compliance with ORS 295. Under the PFCP – which created a shared liability structure for participating depositories – these bank depositories are required to pledge collateral against any public funds' deposits in excess of deposit insurance amounts. Based on information that the banks are required to report quarterly, the PFCP calculates each depository bank's minimum collateral (maximum liability) that must be pledged with the custodian for the next quarter. The pledged securities are designated as subject to the pledge agreement between the depository bank, the custodian bank (the Federal Home Loan Bank of Des Moines, which acts as agent for the depository banks), and the OST, and are held for the benefit of the OST on behalf of the public depositors. As of June 30, 2023 and 2022, the aggregate Oregon public fund collateral pledged exceeded 100% of the public fund deposits held by the Hospital's depository bank.

The Hospital's investments are reported at fair value, as discussed in Note 14. As of June 30, 2023, all of the Hospital's investments were held in the Hospital's name by an investment broker which is an agent for the Hospital.

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Debt securities with longer maturities are subject to increased risk of adverse interest rate changes. The Hospital has a formal investment policy that limits the expected maturities of investments as a means of managing its exposure to interest rate risk.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

As of June 30, 2023 and 2022, the Hospital's investments in debt securities had the following contractual maturities:

June 30, 2023						
	Mortgage-backed Securities	U.S. Government Agency Obligations	Corporate Obligations	U.S. Treasury Securities	Municipal Bonds	Total
Investment maturity						
Less than one year	\$ -	\$ -	\$ 1,680,363	\$ -	\$ 544,677	\$ 2,225,040
1-5 years	3,388,645	1,506,600	1,113,883	14,827,410	-	20,836,538
6-10 years	1,365,167	-	2,848,324	2,098,565	-	6,312,056
More than 10 years	21,202,289	-	139,785	-	-	21,342,074
Total	<u>\$ 25,956,101</u>	<u>\$ 1,506,600</u>	<u>\$ 5,782,355</u>	<u>\$ 16,925,975</u>	<u>\$ 544,677</u>	<u>\$ 50,715,708</u>
June 30, 2022						
	Mortgage-backed Securities	U.S. Government Agency Obligations	Corporate Obligations	U.S. Treasury Securities	Municipal Bonds	Total
Investment maturity						
Less than one year	\$ -	\$ 1,773,086	\$ 2,581,867	\$ -	\$ 935,866	\$ 5,290,819
1-5 years	5,035,660	1,552,664	5,994,836	27,359,874	547,227	40,490,261
6-10 years	1,925,125	-	2,834,217	8,816,324	-	13,575,666
More than 10 years	27,194,540	-	-	-	-	27,194,540
Total	<u>\$ 34,155,325</u>	<u>\$ 3,325,750</u>	<u>\$ 11,410,920</u>	<u>\$ 36,176,198</u>	<u>\$ 1,483,093</u>	<u>\$ 86,551,286</u>

Concentration of credit risk – Concentration of credit risk with respect to deposits and investments is the risk of loss attributed to the magnitude of the Hospital's investment in a single issuer. As of June 30, 2023 and 2022, none of the Hospital's individual investments in corporate obligations represented 5.0% or more of its total investments.

Bay Area Health District, dba Bay Area Hospital
Notes to Financial Statements

Note 3 – Patient Accounts Receivable

Patient accounts receivable as of June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Receivable from patients and their insurance carriers	\$ 12,144,868	\$ 13,990,608
Receivable from Medicare, net	9,952,830	11,442,105
Receivable from Medicaid and OHP, net	<u>2,826,217</u>	<u>1,648,570</u>
Total patients accounts receivable	<u>24,923,915</u>	<u>27,081,283</u>
Less allowance for doubtful accounts	<u>(5,002,271)</u>	<u>(2,615,664)</u>
Patient accounts receivable, net	<u><u>\$ 19,921,644</u></u>	<u><u>\$ 24,465,619</u></u>

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Note 4 – Capital Assets

The activity in the Hospital's capital assets and related accumulated depreciation accounts for the years ended June 30, 2023 and 2022 was as follows:

	July 1, 2022	Additions/ Provisions	Disposals	Transfers	June 30, 2023
Depreciable capital assets					
Cost					
Land improvements	\$ 2,344,681	\$ -	\$ -	\$ -	\$ 2,344,681
Buildings and improvements	101,626,973	-	-	2,771,302	104,398,275
Fixed equipment	8,425,814	24,959	-	335,736	8,786,509
Movable equipment	89,615,873	1,015,206	(73,244)	1,554,031	92,111,866
Total depreciable capital assets	202,013,341	1,040,165	(73,244)	4,661,069	207,641,331
Accumulated depreciation					
Land improvements	2,115,114	47,282	-	-	2,162,396
Buildings and improvements	47,792,720	3,251,472	-	-	51,044,192
Fixed equipment	6,528,849	388,300	-	-	6,917,149
Movable equipment	67,080,133	5,599,605	(6,697)	-	72,673,041
Total accumulated depreciation	123,516,816	9,286,659	(6,697)	-	132,796,778
Depreciable capital assets, net	78,496,525				74,844,553
Nondepreciable capital assets					
Land	1,138,426	-	-	-	1,138,426
Construction in progress	3,004,203	2,209,230	-	(4,661,069)	552,364
Total nondepreciable capital assets	4,142,629	\$ 2,209,230	\$ -	\$ (4,661,069)	1,690,790
Capital assets, net	\$ 82,639,154				\$ 76,535,343

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

	July 1, 2021	Additions/ Provisions	Disposals	Transfers	June 30, 2022
Depreciable capital assets					
Cost					
Land improvements	\$ 2,310,331	\$ 34,350	\$ -	\$ -	\$ 2,344,681
Buildings and improvements	101,593,922	-	-	33,051	101,626,973
Fixed equipment	8,379,958	39,451	-	6,405	8,425,814
Movable equipment	84,255,081	3,821,558	-	1,539,234	89,615,873
Total depreciable capital assets	196,539,292	3,895,359	-	1,578,690	202,013,341
Accumulated depreciation					
Land improvements	2,063,898	51,216	-	-	2,115,114
Buildings and improvements	44,559,279	3,233,441	-	-	47,792,720
Fixed equipment	6,161,408	367,441	-	-	6,528,849
Movable equipment	61,167,989	5,912,144	-	-	67,080,133
Total accumulated depreciation	113,952,574	9,564,242	-	-	123,516,816
Depreciable capital assets, net	82,586,718				78,496,525
Nondepreciable capital assets					
Land	1,138,426	-	-	-	1,138,426
Construction in progress	1,109,054	3,473,839	-	(1,578,690)	3,004,203
Total nondepreciable capital assets	2,247,480	\$ 3,473,839	\$ -	\$ (1,578,690)	4,142,629
Capital assets, net	\$ 84,834,198				\$ 82,639,154

Depreciation expense of capital assets was \$9,279,966 and \$9,564,242 for the years ended June 30, 2023 and 2022, respectively.

Bay Area Health District, dba Bay Area Hospital
Notes to Financial Statements

Note 5 – Lease Right-of-Use and Subscription Assets

A summary of lease right-of-use assets for the years ended June 30, 2023 and 2022 is as follows:

	<u>July 1, 2022</u>	<u>Additions</u>	<u>June 30, 2023</u>
Lease right-of-use assets			
Buildings	\$ 1,119,947	\$ 21,787	\$ 1,141,734
Movable equipment	<u>2,030,036</u>	<u>1,223,512</u>	<u>3,253,548</u>
Total lease assets	<u>3,149,983</u>	<u>1,245,299</u>	<u>4,395,282</u>
Accumulated amortization			
Buildings	253,573	253,573	507,146
Movable equipment	<u>253,567</u>	<u>508,517</u>	<u>762,084</u>
Total accumulated amortization	<u>507,140</u>	<u>762,090</u>	<u>1,269,230</u>
Lease right-of-use assets, net	<u><u>\$ 2,642,843</u></u>		<u><u>\$ 3,126,052</u></u>
	<u>July 1, 2021</u>	<u>Additions</u>	<u>June 30, 2022</u>
Lease right-of-use assets			
Buildings	\$ 1,119,947	\$ -	\$ 1,119,947
Movable equipment	<u>457,475</u>	<u>1,572,561</u>	<u>2,030,036</u>
Total lease assets	<u>1,577,422</u>	<u>1,572,561</u>	<u>3,149,983</u>
Accumulated amortization			
Buildings	-	253,573	253,573
Movable equipment	<u>-</u>	<u>253,567</u>	<u>253,567</u>
Total accumulated amortization	<u>-</u>	<u>507,140</u>	<u>507,140</u>
Lease right-of-use assets, net	<u><u>\$ 1,577,422</u></u>		<u><u>\$ 2,642,843</u></u>

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

A summary of subscription assets for the years ended June 30, 2023 and 2022 is as follows:

	July 1, 2022	Additions	June 30, 2023
Subscription assets	\$ 13,477,932	-	\$ 13,477,932
Accumulated amortization	3,106,509	2,020,235	5,126,744
Subscription assets, net	<u>\$ 10,371,423</u>		<u>\$ 8,351,188</u>

	July 1, 2021	Additions	June 30, 2022
Subscription assets	\$ 12,741,077	736,855	\$ 13,477,932
Accumulated amortization	1,199,373	1,907,136	3,106,509
Subscription assets, net	<u>\$ 11,541,704</u>		<u>\$ 10,371,423</u>

Note 6 – Long-term Obligations and Other Noncurrent Liabilities

A schedule of changes in the Hospital's long-term obligations and other noncurrent liabilities for the year ended June 30, 2023 and 2022 is as follows:

	July 1, 2022	Additions	Reductions	June 30, 2023	Amounts Due Within One Year	Amounts Due After One Year
Long-term obligations						
Note payable – BOTW	\$ 49,380,282	\$ 1,667,704	\$ 3,168,486	\$ 47,879,500	\$ 1,539,671	\$ 46,339,829
Line of credit — BOTW	8,000,000	-	8,000,000	-	-	-
Total long-term obligations	<u>57,380,282</u>	<u>1,667,704</u>	<u>11,168,486</u>	<u>47,879,500</u>	<u>1,539,671</u>	<u>46,339,829</u>
Other noncurrent liabilities						
Medicare accelerated payments	7,156,518	-	7,156,518	-	-	-
Net pension liability (see Note 9)	8,910,885	-	1,777,469	7,133,416	-	7,133,416
OPEB (see Note 11)	2,935,570	-	1,297,068	1,638,502	-	1,638,502
Estimated medical malpractice claims (see Note 12)	1,131,000	-	105,000	1,026,000	-	1,026,000
Other	402,067	26,821	-	428,888	-	428,888
Total other non-current liabilities	<u>20,536,040</u>	<u>26,821</u>	<u>10,336,055</u>	<u>10,226,806</u>	<u>-</u>	<u>10,226,806</u>
Total non-current liabilities	<u>77,916,322</u>	<u>\$ 1,694,525</u>	<u>\$ 21,504,541</u>	<u>58,106,306</u>	<u>1,539,671</u>	<u>56,566,635</u>
Lease and SBITA liabilities (Note 7)	<u>8,259,363</u>			<u>7,612,534</u>	<u>2,006,016</u>	<u>5,606,518</u>
Total non-current liabilities	<u>\$ 86,175,685</u>			<u>\$ 65,718,840</u>	<u>\$ 3,545,687</u>	<u>\$ 62,173,153</u>

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

	July 1, 2021	Additions	Reductions	June 30, 2022	Amounts Due Within One Year	Amounts Due After One Year
Long-term obligations						
Note payable – BOTW	\$ 50,000,000	\$ -	\$ 619,718	\$ 49,380,282	\$ 49,380,282	\$ -
Line of credit – BOTW	-	8,000,000	-	8,000,000	8,000,000	-
Total long-term obligations	50,000,000	8,000,000	619,718	57,380,282	57,380,282	-
Other noncurrent liabilities						
Medicare accelerated payments	27,440,324	-	20,283,806	7,156,518	7,156,518	-
Net pension liability (see Note 9)	-	8,910,885	-	8,910,885	-	8,910,885
OPEB (see Note 11)	2,861,046	74,524	-	2,935,570	-	2,935,570
Estimated medical malpractice claims (see Note 12)	938,000	193,000	-	1,131,000	-	1,131,000
Other	510,273	57,333	165,539	402,067	-	402,067
Total other non-current liabilities	31,749,643	9,235,742	20,449,345	20,536,040	7,156,518	13,379,522
Total non-current liabilities	81,749,643	\$ 17,235,742	\$ 21,069,063	77,916,322	64,536,800	13,379,522
Lease and SBITA liabilities (Note 7)	7,806,970			8,259,363	1,804,477	6,454,886
Total non-current liabilities	\$ 89,556,613			\$ 86,175,685	\$ 66,341,277	\$ 19,834,408

In December 2020, the Hospital entered into a \$50,000,000 term loan agreement (the Note Payable) with BOTW. The proceeds of the Note Payable were used to help finance a new electronic health records (EHR) system (the EHR System) and a new human resources and financial system and to repay the Hospital's pre-existing debt to Umpqua Bank. Under terms of the Note Payable, the Hospital is required to make interest-only payments in monthly installments of approximately \$100,000 through January 2022. Beginning in February 2022, the Hospital is required to make payments in monthly installments of principal and interest of approximately \$220,000, with the remaining outstanding principal (currently estimated to be approximately \$35,300,000) and accrued interest due in December 2030. The initial interest rate on the Note Payable was 2.34%, and the rate is adjusted quarterly based on the Hospital's most recent debt service coverage ratio for the twelve-month period then ended. The quarterly interest rates under terms of the Note Payable range from 2.34% to 2.84%, unless the Hospital is in default (see below) under terms of the Note Payable, in which case, interest is payable at a default rate. The default rate is a variable rate of interest equal to the greater of (1) BOTW's prime interest rate plus 3.00% (11.25% as of June 30, 2023) or (2) the Federal Funds Rate plus 5.50% (10.58% as of June 30, 2023), unless BOTW provides the Hospital with a forbearance period (see below). The Note Payable is secured by a pledge of the Hospital's revenues. Outstanding borrowings under the Note Payable as of June 30, 2023 and 2022 were \$47,879,500 and \$49,380,282, respectively. The Note Payable may be prepaid in whole or in part, with a prepayment penalty. The Note Payable includes requirements to meet certain financial and operating covenants.

Also in December 2020, the Hospital entered into a \$10,000,000 revolving line of credit agreement (the Line of Credit) with BOTW which expired on December 30, 2022. Borrowings under the Line of Credit generally bear interest at the current one-month London Interbank Offered Rate (LIBOR) (1.79% as of June 30, 2022) plus a quarterly margin interest rate. The quarterly margin interest rates under terms of the Line of Credit range from 1.50% to 2.25%, unless the Hospital is in default under terms of the Line of Credit, in which case, interest is payable at a default rate. The default rate for the Line of Credit is calculated in the same manner as the default rate for the Note Payable. Borrowings under the Line of Credit are secured by a pledge of the Hospital's revenues. Outstanding borrowings under the Line of Credit as of June 30, 2022 were \$8,000,000. The Line of Credit includes the same requirements to meet certain financial and operating covenants as the Note Payable. The Hospital repaid and closed the line of credit in fiscal year 2023.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

For the twelve-month period ended March 31, 2022, and the year ended June 30, 2022, the Hospital was not in compliance with a bank covenant, and lacking a waiver from the bank, borrowings under the Note Payable and Line of Credit bear interest at the default rate beginning on March 31, 2022 (unless granted a forbearance period), and BOTW could demand repayment of all amounts outstanding under the Note Payable and Line of Credit agreements. Accordingly, in fiscal year 2022 the \$47,876,185 of the Note Payable that is due in years subsequent to 2023 was classified as a current liability in the Hospital's statement of net position as of June 30, 2022.

The Hospital and BOTW entered into a series of forbearance agreements in fiscal year 2023 and agreed to modify loan terms at the end of fiscal year 2023. The closing of this agreement occurred in October 2023 and modified the terms of the loan as to allow the Hospital to exit default at the end of fiscal year 2023. The Hospital agreed to an increased interest rate ranging from 4.00% to 5.00%, pledged real estate collateral and agreed to more frequent financial reporting. Due to this agreement the Hospital was able to reclassify the \$46,339,839 of the Note Payable that is due in year subsequent to 2024 as a non-current liability.

As of June 30, 2023, scheduled principal and interest repayments on the Note Payable were as follows:

Fiscal Years Ending June 30,	<u>Principal</u>	<u>Interest</u>
2024	\$ 1,539,673	\$ 1,103,937
2025	1,576,090	1,067,520
2026	1,613,368	1,030,241
2027	1,651,529	992,081
2028	1,690,592	953,018
Thereafter	<u>39,808,248</u>	<u>2,274,566</u>
	<u>\$ 47,879,500</u>	<u>\$ 7,421,363</u>

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Note 7 – Lease Obligation and Subscription Liabilities

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

	July 1, 2022	Additions	Deductions	June 30, 2023	Amounts Due Within One Year	Amounts Due After One Year
Lease liabilities	\$ 2,665,192	\$ 1,245,298	\$ (734,647)	\$ 3,175,843	\$ 814,551	\$ 2,361,292
Subscription liabilities	5,594,171	-	(1,157,480)	4,436,691	1,191,465	3,245,226
Total	\$ 8,259,363	\$ 1,245,298	\$ (1,892,127)	\$ 7,612,534	\$ 2,006,016	\$ 5,606,518

	July 1, 2021	Additions	Deductions	June 30, 2022	Amounts Due Within One Year	Amounts Due After One Year
Lease liabilities	\$ 1,577,422	\$ 1,572,561	\$ (484,791)	\$ 2,665,192	\$ 646,997	\$ 2,018,195
Subscription liabilities	6,229,548	736,855	(1,372,232)	5,594,171	1,157,480	4,436,691
Total	\$ 7,806,970	\$ 2,309,416	\$ (1,857,023)	\$ 8,259,363	\$ 1,804,477	\$ 6,454,886

As of June 30, 2023, future scheduled principal and interest payments for leases were as follows:

Fiscal Years Ending June 30,	Principal	Interest
2024	\$ 814,551	\$ 88,639
2025	840,838	65,822
2026	682,113	43,271
2026	343,693	27,179
2026	186,217	17,867
Thereafter	308,431	10,638
Total	\$ 3,175,843	\$ 253,416

As of June 30, 2023, future scheduled principal and interest payments for subscription liabilities were as follows:

Fiscal Years Ending June 30,	Principal	Interest
2024	\$ 1,191,465	\$ 96,917
2025	1,202,679	68,148
2026	1,180,724	38,942
2027	861,823	10,392
Total	\$ 4,436,691	\$ 214,399

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Note 8 – Net Patient Service Revenue

Net patient service revenue for the years ended June 30, 2023 and 2022 was comprised of the following:

	2023	2022
Charges at established rates	\$ 577,667,876	\$ 563,462,003
Deductions		
Medicare, Medicaid, and OHP contractual allowances	318,641,061	274,338,411
Other contractual allowances	47,632,262	102,964,234
Provision for bad debts	2,597,567	3,526,733
Charity allowances	3,700,357	1,979,272
	<u>372,571,247</u>	<u>382,808,650</u>
Total deductions		
	<u>372,571,247</u>	<u>382,808,650</u>
Net patient service revenue	<u>\$ 205,096,629</u>	<u>\$ 180,653,353</u>

Management estimates that the net cost of charity care provided was approximately \$357,000 and \$852,000 for the years ended June 30, 2023 and 2022, respectively. This estimate was based on the Hospital's overall ratio of costs to charges during the year. For the year ended June 30, 2023, approximately 3.7% of all inpatient admissions were classified as charity care; and approximately 3.0% of all outpatient visits in each year were classified as charity care. For the year ended June 30, 2022, approximately 3.7% of all inpatient admissions were classified as charity care; and approximately 2.8% of all outpatient visits in each year were classified as charity care. The largest proportion of services provided on a charity care basis was for emergency room, cardiology, oncology, and imaging services.

Note 9 – The Defined Benefit Plan

Plan description – The Hospital is required to make periodic contributions to the Defined Benefit Plan (Retirement Plan for Employees of Bay Area Health District). Contributions by participants to the Defined Benefit Plan are not required or permitted.

The Defined Benefit Plan is a single-employer plan administered by Principal Life Insurance Co., with oversight by the Hospital's President/Chief Executive Officer (CEO). The Board has the authority to establish and amend benefit provisions. U.S. Bank, N.A. is the trustee of the Defined Benefit Plan. The Defined Benefit Plan's actuary is Independent Actuaries, Inc. The effective date of the Defined Benefit Plan was February 1, 1974, and it was last restated effective January 1, 2014.

Eligibility for new participants to the Defined Benefit Plan was frozen effective January 1, 2002. Also, effective January 1, 2002, and again on January 1, 2003, participants were permitted to irrevocably elect out of the Defined Benefit Plan and have no future benefits accrue. Employees who are participants in the Defined Benefit Plan are not eligible to participate in the Hospital's separate defined contribution plan (see Note 10) unless this election was made.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Prior to the 2002 amendment, all full-time or permanent part-time employees who were not covered by a separate pension plan sponsored under a collective bargaining agreement were eligible to participate in the Defined Benefit Plan. As of December 31, 2022, membership in the Defined Benefit Plan consisted of 27 active employees, 348 inactive participants currently receiving benefits, and 68 inactive participants not yet receiving benefits.

Benefits provided – Benefits under the Defined Benefit Plan are generally calculated as a percentage of the employee's compensation for each year multiplied by the employee's benefit service for that year, accumulated for each year that an employee is eligible to earn benefits. All participants in the Defined Benefit Plan are eligible for normal retirement benefits at age 65. A participant may retire after age 55 with five years of vesting service, with benefits at a reduced level. If a participant's employment is terminated for reasons other than retirement, disability, or death, the participant will be entitled to receive, upon eligibility for retirement, the benefit developed by the benefit formula multiplied by the vested percentage. The amount of the participant's benefit that is not vested will be forfeited. The Defined Benefit Plan's assets are held in trust, independent of the Hospital, but solely for the purpose of paying the Defined Benefit Plan's benefits and administrative expenses. The Defined Benefit Plan does not issue a separate stand-alone financial report; however, the accompanying financial statements include the fiduciary fund financial statements for the Defined Benefit Plan as of and for the year ended December 31, 2022 and 2021.

Funding policy – The contribution requirements of the Hospital are based on the terms of the Defined Benefit Plan document, which was approved – and may be amended – by the Board. The funding policy of the Defined Benefit Plan provides for an actuarially-computed required contribution using the Individual Entry Age Normal cost method of funding. The objective under this method is to fund all benefits under the Defined Benefit Plan in installments which are level as a percentage of payroll, starting at the original participation dates and continuing until assumed retirements, terminations, disabilities, or deaths. The Hospital's annual required contributions were determined as part of an actuarial valuation as of January 1, 2023.

For the years ended June 30, 2023 and 2022, the Hospital contributed \$100,000 and \$350,000, respectively, to the Defined Benefit Plan.

Net pension asset (liability) – The Hospital's net pension asset (NPA) (net pension liability (NPL)) was measured as of June 30, 2023, and the total pension liability used to calculate the NPA (NPL) was determined by an actuarial valuation as of January 1, 2023 and projected to June 30, 2023, assuming no actuarial gain or loss.

Actuarial methods and assumptions – Significant actuarial assumptions used in determining the NPA (NPL) and the Hospital's annual required contributions include the following:

1. Rate of return on the investment of present and future assets at 7.25% per year compounded annually,
2. Projected annual salary increases of 5.50%,
3. Projected increase in annual compensation limits of 3.00%,

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

4. Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection based on Scale MP-2021,
5. Turnover rates established by the V Select and Ultimate Table in the Employee Termination Study by Roger L. Vaughn, as printed in the 1992 edition of the Pension Forum, and
6. Assumed rates of retirement ranging from 2% at age 55 to 100% at age 65.

The Hospital developed the expected long-term rate of return on assets assumption as a weighted average rate based on the target asset allocation of the Defined Benefit Plan and long-term capital market assumptions. The overall return for each asset class was developed by combining a long-term inflation component and the associated expected real rates of return. The development of the capital market assumptions utilized a variety of methodologies, including, but not limited to, historical analysis, stock valuation models such as dividend discount models and earnings yield models, expected economic growth outlook, and market yield analysis. This analysis resulted in the selection of the 7.25% expected long-term rate of return on Defined Benefit Plan assets for the year ended June 30, 2023 and 2022.

The target asset allocation of the Defined Benefit Plan's assets as of June 30, 2023 and 2022 was as follows:

Asset category	
U.S. large equity	35%
U.S. fixed income	35%
International equity	19%
U.S. small equity	11%
Total	100%

The discount rate used to measure the total pension liability was 7.25% as of June 30, 2023 and 2022. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will be made at rates equal to the actuarially determined contribution rate. Based on that assumption, the Defined Benefit Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Changes in NPA (NPL) – The changes in the Hospital's NPA (NPL) for the year ended June 30, 2023 and 2022 were as follows:

	Total Pension Liability (a)	Defined Benefit Plan Fiduciary Net Position (b)	NPA (NPL) (b) - (a)
Balances as of June 30, 2021	\$ 61,004,009	\$ 65,827,199	\$ 4,823,190
Service cost	210,246	-	(210,246)
Interest	4,262,919	-	(4,262,919)
Differences between expected and actual experience	65,365	-	(65,365)
Changes in assumptions	129,945	-	(129,945)
Investment income, net	-	(9,415,600)	(9,415,600)
Employer contributions	-	350,000	350,000
Benefit payments	(4,916,756)	(4,916,756)	-
Net changes	(248,281)	(13,982,356)	(13,734,075)
Balances as of June 30, 2022	\$ 60,755,728	\$ 51,844,843	\$ (8,910,885)
Service cost	160,069	-	(160,069)
Interest	4,235,536	-	(4,235,536)
Differences between expected and actual experience	38,990	-	(38,990)
Investment income, net	-	6,112,064	6,112,064
Employer contributions	-	100,000	100,000
Benefit payments	(5,078,069)	(5,078,069)	-
Net changes	(643,474)	1,133,995	1,777,469
Balances as of June 30, 2023	\$ 60,112,254	\$ 52,978,838	\$ (7,133,416)

The following presents the Hospital's NPL as of June 30, 2023 and 2022, calculated using the discount rate of 7.25%, as well as what the Hospital's NPL would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1.0% Decrease (6.25%)	Current Rate (7.25%)	1.0% Increase (8.25%)
2023			
Net Pension Liability	\$ 12,282,529	\$ 7,133,416	\$ 2,654,236
	1.0% Decrease (6.25%)	Current Rate (7.25%)	1.0% Increase (8.25%)
2022			
Net Pension Liability	\$ 14,255,998	\$ 8,910,885	\$ 4,277,363

Pension expense, deferred outflows of resources, and deferred inflows of resources – Pension expense related to the Defined Benefit Plan was approximately \$2,800,000 and \$761,000 for the years ended June 30, 2023 and 2022, respectively. Such amount is classified in salaries and benefits in the accompanying statement of revenue, expenses, and changes in net position.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

As of June 30, 2023 and 2022, the Hospital recorded deferred outflows of resources and deferred inflows of resources related to the Defined Benefit Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2023		
Differences between expected and actual experience	\$ 38,990	\$ -
Net difference between projected and actual earnings on Defined Benefit Plan assets	13,147,357	8,863,049
	<u>\$ 13,186,347</u>	<u>\$ 8,863,049</u>
Total		
	<u>\$ 13,186,347</u>	<u>\$ 8,863,049</u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
2022		
Differences between expected and actual experience	\$ 65,365	\$ -
Net difference between projected and actual earnings on Defined Benefit Plan assets	17,139,768	8,634,580
Assupmtion Changes	129,945	-
	<u>\$ 17,335,078</u>	<u>\$ 8,634,580</u>
Total		
	<u>\$ 17,335,078</u>	<u>\$ 8,634,580</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources as of June 30, 2023 will be recognized in future pension expense as follows:

	Deferred Outflows of Resources, net
Fiscal Years Ending June 30,	
2024	\$ 1,399,825
2025	854,489
2026	202,869
2027	2,350,279
2028	(484,164)
	<u>\$ 4,323,298</u>
Total deferred outflows of resources, net	
	<u>\$ 4,323,298</u>

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Note 10 – Defined Contribution Pension Plans

The Hospital also has a defined contribution pension plan (Bay Area Health District Defined Contribution Plan) (the Defined Contribution Plan), which is intended to qualify under section 401(a) of the Code. The Defined Contribution Plan is a single-employer plan administered by Principal Life Insurance Co. with oversight by the Hospital's CEO. The Board may amend or terminate the Defined Contribution Plan at any time. Charles Schwab is the trustee of the Defined Contribution Plan. The Defined Contribution Plan covers substantially all full-time employees who are not covered by a collective bargaining agreement – other than employees who are members of the Oregon Nurses Association (ONA) – and are not participating in the Defined Benefit Plan (see Note 9).

The Hospital is required to make a basic contribution to the Defined Contribution Plan of 4% of each eligible participant's compensation. In addition, for each participant with at least one year of service (generally 1,000 eligible hours, as defined by the Defined Contribution Plan) and who elects to make tax-deferred contributions to his or her tax sheltered annuity 403(b) account (403(b) account) or 457 deferred compensation account (457 account), the Hospital is required to make a 50% matching contribution to the Defined Contribution Plan up to a maximum matching contribution of 2% of the participant's compensation.

Participants are immediately vested in their own contributions to their 403(b) accounts or 457 accounts, in the Hospital's contributions to the Defined Contribution Plan, and in all related earnings or losses thereon.

Aggregate participant contributions to 403(b) and 457 accounts during the years ended June 30, 2023 and 2022 were approximately \$4,846,000 and \$5,003,000, respectively. The Hospital's contributions to the Defined Contribution Plan for the years ended June 30, 2023 and 2022 were approximately \$2,014,000 and \$2,065,000, respectively.

The Hospital also has deferred compensation plans for certain Hospital executives. The amounts charged to expense under these plans were approximately \$200,000 and \$268,000 for the years ended June 30, 2023 and 2022, respectively. As of June 30, 2023 and 2022, the liabilities related to these plans aggregated approximately \$428,000 and \$402,000 and are included in other noncurrent liabilities in the accompanying statement of net position.

Note 11 – Postemployment Health Care Plan

Plan description – The Bay Area Health District Health Plan (the Health Plan) is a single-employer defined benefit health care plan administered by the Hospital. The Health Plan provides medical, prescription drug, dental, and vision benefits and/or premium reimbursements to eligible retirees and dependents. The Health Plan may be amended by action of the Board. The Health Plan's actuary is Milliman, Inc. The Health Plan does not issue a separate stand-alone financial report. There are no assets accumulated in a trust for the benefit of the Health Plan.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Benefits provided – The contribution requirements of members of the Health Plan and the Hospital are established, and may be amended, by the Board. Early retirees (age 55 with at least five years of service) pay 100% of the Consolidated Omnibus Budget Reconciliation Act (COBRA) premium and may remain in the Health Plan until Medicare eligibility; there is no coverage for early retirees following Medicare eligibility. Other retirees (age 60 with at least twenty years of service) pay 100% of the COBRA premium prior to Medicare eligibility, or are paid up to \$500 per month for an outside policy of their choosing. After Medicare eligibility, the Hospital contributes a fixed dollar amount towards the selected American Association of Retired Persons (AARP) Medicare supplemental insurance for those age 60 with at least twenty years of service. No retiree benefits are paid subsequent to 5 years from the date of retirement. In addition, there are certain grandfathered retirees who have different contribution requirements.

Total Other Postemployment Benefits (OPEB) liability – As of June 30, 2023, the Hospital's total OPEB liability of approximately \$1,639,000 was measured as of June 30, 2022 and was determined by an actuarial valuation as of July 1, 2022 and is included in net pension liability. As of June 30, 2022, the Hospital's total OPEB liability of approximately \$2,936,000 was measured as of June 30, 2021 and was determined by an actuarial valuation as of July 1, 2020.

Employees covered by benefit terms – As of July 1, 2022 (the actuarial valuation date), the following employees were covered by the benefit terms:

Active employees	742
Retired members	<u>42</u>
Total participants	<u><u>784</u></u>

Actuarial methods and assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the Health Plan as understood by the Hospital and members of the Health Plan) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Hospital and members of the Health Plan to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial assumptions used in determining the OPEB liability as of June 30, 2023 and 2022 include the following:

1. Discount rate of 2.16%,
2. Projected annual salary increases of 3.50%,
3. Projected inflation of 2.50%,
4. Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection based on Scale MP-2019,
5. An initial annual health care cost trend rate of 6.75% for pre-65 medical costs, fluctuating to an ultimate rate of 3.75% in 2071. The dental and vision trend rate is 4.00% for all future years, and
6. Entry age normal cost method.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Changes in the total OPEB liability – The changes in the Hospital's total OPEB liability for the year ended June 30, 2023 and 2022 were as follows:

	2023	2022
Balance, beginning of year	\$ 2,935,570	\$ 2,861,046
Service cost	233,156	226,797
Interest	65,792	65,741
Effect of economic/demographic gains or losses	(441,561)	-
Effect of assumption changes or inputs	(907,492)	9,524
Benefit payments	(246,963)	(227,538)
Net changes	(1,297,068)	74,524
Balance, end of year	<u>\$ 1,638,502</u>	<u>\$ 2,935,570</u>

The following presents the Hospital's OPEB liability as of June 30, 2023 and 2022, calculated using the discount rate of 3.54 % and 2.16%, respectively, as well as what the Hospital's OPEB liability would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1.0% Decrease (2.54%)	Current Rate (3.54%)	1.0% Increase (4.54%)
2023			
Total OPEB liability	<u>\$ 1,740,790</u>	<u>\$ 1,638,502</u>	<u>\$ 1,544,527</u>
	1.0% Decrease (1.16%)	Current Rate (2.16%)	1.0% Increase (3.16%)
2022			
Total OPEB liability	<u>\$ 3,134,703</u>	<u>\$ 2,935,570</u>	<u>\$ 2,751,446</u>

The following presents the Hospital's OPEB liability as of June 30, 2023 and 2022, as well as what the Hospital's OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1.0% Decrease	Current Rate	1.0% Increase
2023			
Total OPEB liability	<u>\$ 1,548,204</u>	<u>\$ 1,638,502</u>	<u>\$ 1,741,854</u>
	1.0% Decrease	Current Rate	1.0% Increase
2023			
Total OPEB liability	<u>\$ 2,739,828</u>	<u>\$ 2,935,570</u>	<u>\$ 3,161,757</u>

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

OPEB income, expense, deferred outflows of resources, and deferred inflows of resources –

OPEB expense related to the Health Plan was approximately \$247,000 and \$167,000 for the years ended June 30, 2023 and 2022. Such amounts are classified in salaries and benefits in the accompanying statement of revenue, expenses, and changes in net position.

As of June 30, 2023 and 2022, the Hospital recorded deferred outflows of resources and deferred inflows of resources related to the Health Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2023		
Differences between expected and actual experience	\$ (394,076)	\$ -
Changes of assumptions or inputs	(898,777)	229,458
Contributions made subsequent to measurement date	-	169,549
	<u>-</u>	<u>169,549</u>
Total	<u>\$ (1,292,853)</u>	<u>\$ 399,007</u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
2022		
Differences between expected and actual experience	\$ -	\$ (34,713)
Changes of assumptions or inputs	296,860	(254,439)
Contributions made subsequent to measurement date	246,963	-
	<u>246,963</u>	<u>-</u>
Total	<u>\$ 543,823</u>	<u>\$ (289,152)</u>

Amounts reported as deferred outflows related to contributions made subsequent to the measurement date will be recognized as a reduction of the total OPEB liability during the year ended June 30, 2023. All other amounts reported as deferred inflows and deferred outflows of resources as of June 30, 2023 will be recognized in future OPEB expense as follows:

Fiscal Years Ending June 30,	Deferred Outflows (Inflows) of Resources
2024	\$ (257,157)
2025	(173,155)
2026	(148,288)
2027	(174,338)
2028	(206,680)
Thereafter	<u>(103,777)</u>
Total deferred outflows of resources, net	<u>\$ (1,063,395)</u>

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Note 12 – Commitments and Contingencies

Significant contracts – In fiscal year 2021 the Hospital entered into a long-term agreement with St. Charles Health System to utilize their Electronic Health Records (EHR) system, EPIC, through a community connect model. The Hospital agreed to pay maintenance and support costs through fiscal year 2028.

As of June 30, 2023, future maintenance and support costs under the contracts for the EHR System were expected to be approximately as follows:

Fiscal Years Ending June 30,	Amount
2024	\$ 3,387,000
2025	3,387,000
2026	3,387,000
2027	3,387,000
2028	3,387,000
Total	<u>\$ 16,935,000</u>

Medical malpractice insurance – Medical malpractice insurance – The Hospital purchases insurance through UMIA Insurance Company, Inc. (UMIA), now operating as Curi. The Hospital is responsible for the first \$25,000 of indemnity payments related to each of its medical malpractice claims, UMIA is responsible for any amounts from \$25,001 to \$1,000,000 per claim and \$3,000,000 in aggregate. Excess coverage is provided by UMIA in the amount of \$10,000,000. The insurance policies under these arrangements are on a claims-made basis. Under these policies, medical malpractice claims reported during the policy period are covered; however, any medical malpractice claim that has been incurred but not reported (IBNR) to the insurance companies during the policy period is not covered.

Based on an actuarial valuation, the Hospital has recorded an estimated liability for IBNR medical malpractice claims, which, along with an estimated liability for reported claims, aggregated to approximately \$1,026,000 and \$1,131,000 as of June 30, 2023 and 2022, respectively, and is included in other noncurrent liabilities in the accompanying statement of net position (see Note 6). Management believes that this estimated liability is adequate; however, the establishment of estimated liabilities 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.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Collective bargaining agreement – As of June 30, 2023 and 2022, approximately 50% and 53%, respectively, of the Hospital's employees are covered under a collective bargaining agreement (CBA) with the United Food and Commercial Workers Union (UFCW), which expired on June 30, 2022. A new CBA through June 30, 2025, with UFCW has been ratified and signed. In addition, as of June 30, 2023 and 2022, approximately 31% and 28%, respectively, of the Hospital's employees are covered under a CBA with the ONA, which will expire on June 30, 2024.

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 financial position or results of operations.

Note 13 – Other Related Parties

The Hospital is a member of Western Oregon Advanced Health, LLC, dba Advanced Health, a limited liability company which was formed to operate as a coordinated care organization in Oregon and whose members consist of various Oregon health care organizations. The Hospital's investment in Advanced Health represents an approximate 5% ownership interest and is not significant to the accompanying financial statements. The Hospital's CEO is on the governing Board of Advanced Health. Under terms of a contract with Advanced Health, the Hospital provides health care services to certain OHP patients (for whom Advanced Health has agreed with OHP to provide health care services) on both a capitated and non-capitated basis. During the years ended June 30, 2023 and 2022, the Hospital received approximately \$21,495,000 and \$1,045,000, respectively, and \$19,904,000 and \$960,000 in capitated and non-capitated payments, respectively, from Advanced Health for the provision of health care services to such OHP patients. The Hospital no longer has a capitated contract with Advanced Health.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Note 14 – 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: Level 1 provides the most reliable measure of fair value, whereas Level 3, 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.

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 observable inputs and minimize the use of unobservable inputs.

The Hospital's assets measured at fair value consist of certain investments. The following is a description of the valuation methodologies used for the Hospital's assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2023 and 2022.

Mortgage-backed securities, U.S. government agency obligations, corporate obligations, and municipal bonds – The fair value of these securities is determined through reference to prices for identical or similar securities or through model-based techniques (which may consider credit information, observed market information such as market yields, and other factors) in which all significant inputs are observable.

U.S. Treasury securities – The fair value of U.S. Treasury securities is determined by obtaining daily market information from dealers and inter-dealer brokers.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

As of June 30, 2023 and 2022, the Hospital's assets measured at fair value on a recurring basis consisted of the following:

June 30, 2023				
	Level 1	Level 2	Level 3	Total
Assets limited to use				
Mortgage-backed securities	\$ -	\$ 25,956,101	\$ -	\$ 25,956,101
U.S. Government agency obligations	-	1,506,600	-	1,506,600
Corporate obligations	-	5,782,355	-	5,782,355
U.S. Treasury securities	16,925,975	-	-	16,925,975
Municipal bonds	-	544,677	-	544,677
Total	<u>\$ 16,925,975</u>	<u>\$ 33,789,733</u>	<u>\$ -</u>	<u>\$ 50,715,708</u>
June 30, 2022				
	Level 1	Level 2	Level 3	Total
Assets limited to use				
Mortgage-backed securities	\$ -	\$ 34,155,325	\$ -	\$ 34,155,325
U.S. Government agency obligations	-	3,325,750	-	3,325,750
Corporate obligations	-	11,410,920	-	11,410,920
U.S. Treasury securities	36,176,198	-	-	36,176,198
Municipal bonds	-	1,483,093	-	1,483,093
Total	<u>\$ 36,176,198</u>	<u>\$ 50,375,088</u>	<u>\$ -</u>	<u>\$ 86,551,286</u>

The methods above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Management believes that the valuation methods used by the Hospital are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements as of the reporting date.

Supplementary Information

Bay Area Health District, dba Bay Area Hospital
Schedule of Changes in Net Position (Liability) and
Related Ratios for the Defined Benefit Plan
Years Ended June 30, 2023 and 2022

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability										
Service cost	\$ 160,069	\$ 210,246	\$ 219,835	\$ 238,232	\$ 277,011	\$ 325,971	\$ 372,678	\$ 437,324	\$ 567,015	\$ 628,412
Interest	4,235,536	4,262,919	4,218,180	4,320,286	4,284,358	4,211,265	4,166,510	4,071,078	3,763,386	3,724,849
Differences between expected and actual experience	38,990	65,365	18,479	(102,579)	351,926	(745,305)	(113,088)	300,510	1,349,078	(931,920)
Change of assumptions	-	129,945	999,659	811,844	-	1,295,479	-	-	1,710,973	-
Benefit payments	(5,078,069)	(4,916,756)	(4,745,183)	(4,597,527)	(4,200,618)	(3,931,982)	(3,638,654)	(3,310,934)	(3,010,897)	(2,687,193)
Change in total pension liability – net	(643,474)	(248,281)	710,970	670,256	712,677	1,155,428	787,446	1,497,978	4,379,555	734,148
Total pension liability – beginning of year	60,755,728	61,004,009	60,293,039	59,622,783	58,910,106	57,754,678	56,967,232	55,469,254	51,089,699	50,355,551
Total pension liability – end of year (a)	<u>\$ 60,112,254</u>	<u>\$ 60,755,728</u>	<u>\$ 61,004,009</u>	<u>\$ 60,293,039</u>	<u>\$ 59,622,783</u>	<u>\$ 58,910,106</u>	<u>\$ 57,754,678</u>	<u>\$ 56,967,232</u>	<u>\$ 55,469,254</u>	<u>\$ 51,089,699</u>
Defined Benefit Plan Fiduciary Net Position										
Investment income (loss)- net	\$ 6,112,064	\$ (9,415,600)	\$ 14,718,659	\$ 970,143	\$ 1,844,223	\$ 4,536,281	\$ 7,035,514	\$ 180,733	\$ 1,476,289	\$ 10,714,683
Employer contributions	100,000	350,000	411,818	582,273	425,000	500,200	919,800	690,000	-	700,000
Benefit payments	(5,078,069)	(4,916,756)	(4,745,183)	(4,597,527)	(4,200,618)	(3,931,982)	(3,638,654)	(3,310,934)	(3,010,897)	(2,687,193)
Change in Defined Benefit Plan fiduciary net position – net	1,133,995	(13,982,356)	10,385,294	(3,045,111)	(1,931,395)	1,104,499	4,316,660	(2,440,201)	(1,534,608)	8,727,490
Defined Benefit Plan fiduciary net position – beginning of year	51,844,843	65,827,199	55,441,905	58,487,016	60,418,411	59,313,912	54,997,252	57,437,453	58,972,061	50,244,571
Defined Benefit Plan fiduciary net position - end of year (b)	<u>\$ 52,978,838</u>	<u>\$ 51,844,843</u>	<u>\$ 65,827,199</u>	<u>\$ 55,441,905</u>	<u>\$ 58,487,016</u>	<u>\$ 60,418,411</u>	<u>\$ 59,313,912</u>	<u>\$ 54,997,252</u>	<u>\$ 57,437,453</u>	<u>\$ 58,972,061</u>
Net pension asset (liability) – end of year (b) – (a)	<u>\$ (7,133,416)</u>	<u>\$ 8,910,885</u>	<u>\$ 4,823,190</u>	<u>\$ (4,851,134)</u>	<u>\$ (1,135,767)</u>	<u>\$ 1,508,305</u>	<u>\$ 1,559,234</u>	<u>\$ (1,969,980)</u>	<u>\$ 1,968,199</u>	<u>\$ 7,882,362</u>
Defined Benefit Plan fiduciary net position as a percentage of the total pension liability	88.13%	85.33%	107.91%	91.95%	98.10%	102.56%	102.70%	96.54%	103.55%	115.43%
Covered payroll	<u>\$ 2,849,647</u>	<u>\$ 2,866,617</u>	<u>\$ 3,474,647</u>	<u>\$ 3,982,471</u>	<u>\$ 4,448,511</u>	<u>\$ 5,010,047</u>	<u>\$ 5,918,890</u>	<u>\$ 6,919,373</u>	<u>\$ 7,999,679</u>	<u>\$ 8,866,401</u>
Net pension asset (liability) as a percentage of covered payroll	<u>(250.33%)</u>	<u>(310.85%)</u>	<u>138.81%</u>	<u>(121.81%)</u>	<u>(25.53%)</u>	<u>30.11%</u>	<u>26.34%</u>	<u>(28.47%)</u>	<u>24.60%</u>	<u>88.90%</u>

Bay Area Health District, dba Bay Area Hospital
Schedule of Contributions to the Defined Benefit Plan
Years Ended June 30, 2023 and 2022

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ -	\$ -	\$ 20,165	\$ 218,821	\$ 1,036,821	\$ -	\$ 481,063	\$ 1,409,170	\$ -	\$ -
Contribution in relation to the actuarially determined contribution	100,000	350,000	411,818	582,273	425,000	500,200	919,800	690,000	-	700,000
Contribution deficiency (excess)	\$ (100,000)	\$ (350,000)	\$ (391,653)	\$ (363,452)	\$ 611,821	\$ (500,200)	\$ (438,737)	\$ 719,170	\$ -	\$ (700,000)
Covered payroll	\$ 2,849,647	\$ 2,866,617	\$ 3,474,647	\$ 3,982,471	\$ 4,448,511	\$ 5,010,047	\$ 5,918,890	\$ 6,919,373	\$ 7,999,679	\$ 8,866,401
Contribution as a percentage of covered payroll	3.51%	12.21%	11.85%	14.62%	9.55%	9.98%	15.54%	9.97%	0.00%	7.89%

Methods and significant actuarial assumptions used in determining the net pension asset (liability) and the Hospital's annual required contribution include the following:

Actuarial cost method is individual entry age normal

Rate of return on investments	7.25%	7.50%	7.25%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Projected annual salary increases	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
Projected increase in annual compensation for	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection using Scale MP-2021 for 2023 and 2022

Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection using Scale MP-2020 for 2021

Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection using Scale MP-2019 for 2020

Mortality using the RP2000 Mortality Table with fully generational projection using Scale BB for 2019 and 2018

Mortality using the RP2000 Mortality Table projected to 2020 using Scale BB for 2017, 2016, 2015, and 2014

Turnover rates established by the *V Select and Ultimate Table* in the *Employee Termination Study* by Roger L. Vaughn, as printed in the 1992 edition of the Pension Forum

Assumed rates of retirement ranging from 2% at age 55 to 100% at age 65

Bay Area Health District, dba Bay Area Hospital
Schedule of Changes in Total OPEB Liability and
Related Ratios for the Health Plan
Year Ended June 30, 2023 and 2022

	2023	2022	2021	2020	2019	2018
Total OPEB Liability						
Service cost	\$ 233,156	\$ 226,797	\$ 149,988	\$ 123,716	\$ 176,673	\$ 186,776
Interest	65,792	65,741	89,222	116,285	133,672	114,192
Effect of changes to benefit terms	-	-	-	(529,927)	-	-
Effect of economic/demographic gains or losses	(441,561)	-	(5,462)	-	(84,659)	-
Effect of assumption changes or inputs	(907,492)	9,524	354,849	78,042	(591,150)	(187,156)
Benefit payments	(246,963)	(227,538)	(251,341)	(288,054)	(333,026)	(423,119)
Change in total OPEB liability – net	(1,297,068)	74,524	337,256	(499,938)	(698,490)	(309,307)
Total OPEB liability – beginning of the year	<u>\$ 2,935,570</u>	<u>\$ 2,861,046</u>	<u>\$ 1,325,362</u>	<u>\$ 3,023,728</u>	<u>\$ 3,722,218</u>	<u>\$ 4,031,525</u>
Total OPEB liability – end of the year	<u>1,638,502</u>	<u>2,935,570</u>	<u>1,662,618</u>	<u>2,523,790</u>	<u>3,023,728</u>	<u>3,722,218</u>
Covered payroll	<u>\$ 51,774,763</u>	<u>\$ 51,100,219</u>	<u>\$ 49,929,679</u>	<u>\$ 47,851,625</u>	<u>\$ 48,252,462</u>	<u>\$ 45,033,885</u>
Total OPEB liability as a percentage of covered payroll	<u>3.16%</u>	<u>5.74%</u>	<u>3.33%</u>	<u>5.27%</u>	<u>6.27%</u>	<u>5.27%</u>

Notes to Schedule of Changes in Total OPEB Liability and Related Ratios
for the Health Plan

Changes in benefit terms:

The effect of changes to benefit terms reflects the net impact of the addition of certain employees subject to a collective bargaining agreement as covered employees under the Health Plan during the year ended June 30, 2021 offset by the modification of benefits for certain other covered employees during the year ended June 30, 2021.

Changes in assumptions:

Effect of assumption changes or inputs reflects the changes in the discount rate and salary increases each period. As of June 30, 2022, 2021, 2020, 2019, and 2018, the discount rates were 3.54%, 2.21%, 3.50%, 3.87%, and 3.58% respectively. As of June 30, 2022, 2021, 2020, 2019, and 2018, the annual pay increases used 3.50%, 3.50%, 3.50%, 3.50%, and 4.50%, respectively.

Bay Area Health District, dba Bay Area Hospital
Schedule of Revenue, Expenditures, and Changes in Net Position – Budget and
Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2023

	Original/ Final Budget	Actual	Variance
Operating revenue			
Net patient service revenue	\$ 206,754,607	\$ 205,096,629	\$ (1,657,978)
Other revenue	1,263,079	2,516,598	1,253,519
Total operating revenue	208,017,686	207,613,227	(404,459)
Expenditures			
Personal services	113,776,922	108,244,634	(5,532,288)
Materials and services	88,178,448	120,117,696	31,939,248
Capital outlay	5,000,000	3,249,068	(1,750,932)
Debt service	2,774,012	4,203,512	1,429,500
Contingencies	-	-	-
Total expenditures	209,729,382	235,814,910	26,085,528
Operating Loss	(1,711,696)	(28,201,683)	(26,489,987)
Nonoperating revenue (expense)			
Investment income (loss) – net	82,919	(1,091,923)	(1,174,842)
Noncapital contributions	-	1,340,012	1,340,012
Other	1,713,251	-	(1,713,251)
Total nonoperating revenue – net	1,796,170	248,089	(1,548,081)
Income (Loss) Before Capital Contributions	84,474	(27,953,594)	(28,038,068)
Difference between GAAP and budgetary basis, net	(5,064,705)	(7,145,519)	(2,080,814)
Increase (Decrease) in Net Position	(4,980,231)	(35,099,113)	(30,118,882)
Net position – June 30, 2022	128,860,254	128,860,254	-
Net Position – June 30, 2023	\$ 123,880,023	\$ 93,761,141	\$ (30,118,882)

Report of Independent Auditors Required by Oregon State Regulations

The Board of Directors
Bay Area Hospital District, dba Bay Area Hospital

We have audited, in accordance with auditing standards generally accepted in the United States of America the financial statements of Bay Area Hospital (the “Hospital”) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Bay Area Hospital’s basic financial statements, and have issued our report thereon dated November 27, 2023.

Compliance

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

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to, the following:

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

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bay Area 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bay Area Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bay Area 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 have not been identified.

Purpose of this Report

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

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



Tony Andrade, Partner for
Moss Adams LLP
Portland, Oregon
November 27, 2023



Reports of Independent Auditors
and Financial Statements

**Bay Area Health District,
dba Bay Area Hospital**

June 30, 2024 and 2023



MOSSADAMS

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Report of Independent Auditors

The Board of Directors
Bay Area Hospital District, dba Bay Area Hospital

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bay Area Hospital District, dba Bay Area Hospital (the Hospital) as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Bay Area Hospital District, dba Bay Area Hospital as of June 30, 2024, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 14 be presented to supplement the basic financial statements as well as schedules of changes in net pension asset (liability) and related ratios for the Defined Benefit Plan, contributions to the Defined Benefit Plan, and changes in total OPEB liability and related ratios for the Defined Benefit Plan on pages 54 through 57 to be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Bay Area Hospital District's basic financial statements. The schedule of adopted appropriations and expenditures, original and final budget and actual as required by Oregon State Regulations, the statement of net position, and the statement of revenues, expenses, and changes in net position are presented for purposes of additional analysis and are not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of adopted appropriations and expenditures, original and final budget and actual, the consolidating statement of net position is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated September 24, 2024, on our consideration of Bay Area Hospital District's compliance with certain provisions of laws and regulations including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of Bay Area Hospital District's internal control over financial reporting or on compliance.

A handwritten signature in dark ink, appearing to read "Tony Andrade". The signature is fluid and cursive, with a horizontal line above the first few letters.

Tony Andrade, Partner for
Moss Adams LLP
Portland, Oregon
September 24, 2024

Management's Discussion and Analysis

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2024 and 2023

Management's discussion and analysis of Bay Area Health District's, dba Bay Area Hospital's (the Hospital's), financial performance provides an overview of the Hospital's financial activities for the fiscal year ended June 30, 2024. Please read it in conjunction with the Hospital's financial statements, which begin on page 16.

Financial Highlights

- The Hospital's net position of approximately \$88.8 million as of June 30, 2024, decreased by approximately \$5.0 million (5.3%) during fiscal year 2024. This was down significantly from the loss of approximately \$35.1 million during fiscal year 2023. The Hospital's net position of approximately \$93.8 million as of June 30, 2023, decreased by approximately \$35.1 million (27.2%) during fiscal year 2023.
- In fiscal year 2024, actual gross patient service revenue of \$714.2 million was more than budgeted gross patient service revenue by approximately \$58.0 million (8.8%) and more than fiscal year 2023 by \$136.5 million (23.6%). In fiscal year 2023, actual gross patient service revenue was more than budgeted gross patient service revenue by approximately \$28.4 million (5.2%) and more than fiscal year 2022 by \$14.2 million (2.5%)
- Net patient service revenue increased from fiscal year 2023 by approximately \$35.3 million (17.2%). In fiscal year 2023 many improvements were recognized in the revenue cycle and additional cash collections bolstered the income statement. That work continued into fiscal year 2024. In addition, the Hospital's volumes increased significantly in fiscal year 2024 as the Hospital looked for ways to say yes to all patients needing care. Net patient service revenue increased from fiscal year 2022 by approximately \$24.4 million (13.5%). In fiscal year 2023 many improvements were recognized in the revenue cycle and additional cash collections bolstered the income statement.
- During fiscal year 2024, the Hospital contained expense growth while increasing volumes. Expenses stabilized in fiscal year 2024 and decreased by \$10.3 million or 4.3% from the prior year. The largest expense increase was in salaries due to increased volumes. Expenses stabilized in fiscal year 2023 and decreased by \$2.2 million or 0.89% from the prior year. The largest expense increase was benefit expense due to market changes of the defined benefit expense.
- The Hospital reported operating losses of approximately \$6.7 million and \$32.8 million in fiscal years 2024 and 2023, respectively.

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2024 and 2023

- Total nonoperating revenue - net was approximately a net nonoperating expense of \$1.7 million in fiscal year 2024 and a loss of \$2.3 million in fiscal year 2023. Net investment loss of approximately \$1.1 million in fiscal year 2023 differed from the approximate \$1.7 million investment gain in fiscal year 2024 as the markets continued to rebound. The net investment gain/loss was incurred on the Hospital's fixed-income investment portfolio, the composition of which is dictated by State regulations. Total nonoperating revenue - net was approximately a net nonoperating expense of \$2.3 million in fiscal year 2023 and positive \$356 thousand in fiscal year 2022. The change from fiscal year 2022 to fiscal year 2023 was primarily due to the recognition of government stimulus income of approximately \$7.5 million in 2022 (compared to no incentives in 2023), and a decrease in net investment loss of approximately \$7.3 million in fiscal year 2022 compared to an approximate \$1.1 million investment loss in fiscal year 2023. The net investment loss was incurred on the Hospital's fixed-income investment portfolio, the composition of which is dictated by State regulations.
- **Using this annual report** – The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenue, Expenses and Changes in Net Position, and a Statement of Cash Flows. These financial statements and related notes provide information about the financial activities of the Hospital. The Hospital is the trustee, or fiduciary, for a defined benefit employee pension plan. The Hospital is responsible for the assets of this pension plan which - because of a trust arrangement - can be used only for the trust beneficiaries. All of the Hospital's fiduciary activities (which are solely related to this pension plan) are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 21 and 22. These activities are excluded from the Hospital's other financial statements, because the Hospital cannot use these assets to finance its operations. The Hospital is responsible for ensuring that the assets reported in this fiduciary fund are used for their intended purposes.

The Statement of Net Position and Statement of Revenue, Expenses and Changes in Net Position

– The Statement of Net Position and the Statement of Revenue, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps the user decide if the Hospital as a whole is better or worse off as a result of the year's activities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in net position from the prior year. You can think of the Hospital's net position - the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service that it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

The Statement of Cash Flows – This statement reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operating activities, noncapital financing activities (if applicable), capital and related financing activities, and investing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?" and "What was the change in the cash balance during the reporting period?"

Bay Area Health District, dba Bay Area Hospital
Management's Discussion and Analysis
Years Ended June 30, 2024 and 2023

The Hospital's net position – Hospital's net position is the difference between (1) its assets plus deferred outflows of resources and (2) its liabilities plus deferred inflows of resources, as reported in the Statement of Net Position on pages 15 and 16. The Hospital's net position decreased by approximately \$5.0 million (5.3%) and \$35.1 million (27.2%) in fiscal year 2024 and 2023, respectively, as you can see from Tables 1 and 2 below.

Table 1: Assets, liabilities, and net position

	June 30,		
	2024	2023	2022
Assets			
Current assets	\$ 63,176,059	\$ 41,687,411	\$ 59,311,597
Assets limited as to use, net of current portion	36,570,822	53,401,226	80,175,078
Total capital assets, net	80,104,701	88,012,583	95,653,420
Other noncurrent assets	684,051	1,096,420	1,135,689
Total assets	180,535,633	184,197,640	236,275,784
Deferred outflows of resources	9,489,130	13,585,354	17,878,901
Total assets and deferred outflows of resources	190,024,763	197,782,994	254,154,685
Liabilities			
Long-term obligations, net of current portion	49,503,479	51,946,347	6,454,886
Long-term debt in default classified as current	-	-	47,876,185
Other current and noncurrent liabilities	40,323,177	41,919,604	62,039,628
Total liabilities	89,826,656	93,865,951	116,370,699
Deferred inflows of resources	11,397,373	10,155,902	8,923,732
Total liabilities and deferred inflows of resources	101,224,029	104,021,853	125,294,431
Net position			
Net investment in capital assets	27,049,940	32,520,549	38,013,775
Unrestricted	61,750,794	61,240,592	90,846,479
Total net position	\$ 88,800,734	\$ 93,761,141	\$ 128,860,254

Total assets and deferred outflows of resources decreased approximately \$7.8 million from June 30, 2023 to June 30, 2024. The decrease in cash and cash equivalents and Assets limited to use was primarily due to the continued operating losses, albeit significantly less than prior years. The decrease in net patient accounts receivable was primarily due to improved collections. Total assets and deferred outflows of resources decreased approximately \$56.4 million from June 30, 2022 to June 30, 2023. The decrease in cash and cash equivalents and Assets limited to use was primarily due to the poor operating and investment results discussed below as well as the return of amounts received under the Advance Payment Program and paying off the line of credit. The decrease in net patient accounts receivable was primarily due to improved collections. The decrease in the deferred outflows of resources related to the activity of the Hospital's defined benefit retirement plan (see Note 9 to the accompanying financial statements).

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2024 and 2023

The Hospital's total long-term debt obligations (including current and non-current portions) decreased from approximately \$47.9 million as of June 30, 2023 to approximately \$46.6 million as of June 30, 2024. The Hospital's total long-term debt obligations (including current and non-current portions and borrowings under a revolving line of credit) decreased from approximately \$57.4 million as of June 30, 2022 to approximately \$47.9 million as of June 30, 2023, primarily due to the paying off the \$8.0 million revolving line of credit.

The Hospital's net position has decreased by approximately \$5.0 million from June 30, 2023 to June 30, 2024, as a result of an operating loss of approximately \$6.7 million and nonoperating income – net of approximately \$1.8 million loss in fiscal year 2024. The Hospital's net position has decreased by approximately \$35.1 million from June 30, 2022 to June 30, 2023, as a result of an operating loss of approximately \$32.8 million and nonoperating income – net of approximately \$2.3 million loss in fiscal year 2023.

Operating results and changes in the Hospital's net position – In fiscal year 2024, the Hospital's net position decreased by approximately \$5.0 million or 5.3%, as shown in Table 2 below. This is an improvement of the \$35.1 million decrease in net position in fiscal year 2023. Stronger volumes and improved net patient service revenue helped drive the reduction. Salaries and benefits increased approximately \$113.9 million or 4.9% from the prior year. As a percentage of total operating revenue fiscal year 2024 was 46.7% down from 52.1% in fiscal year 2023.

In fiscal year 2023, the Hospital's net position decreased by approximately \$35.1 million or 27.2%, as shown in Table 2 below. This is an improvement of the \$60.2 million decrease in net position in fiscal year 2022. Stronger volumes and improved net patient service revenue helped drive the reduction. Union contracts were finalized in fiscal year 2023 and salaries and benefits increased approximately \$8.5 million or 8.6% from the prior year. This increase was offset by savings in Professional and purchased services of approximately \$8.7 million or 12.2%. Most of this was due to reduced reliance on contract labor.

Bay Area Health District, dba Bay Area Hospital
Management's Discussion and Analysis
Years Ended June 30, 2024 and 2023

Table 2: Operating results and changes in net position

	June 30,		
	2024	2023	2022
Operating revenue			
Net patient service revenue	\$ 240,383,933	\$ 205,096,629	\$ 180,653,353
Other revenue	3,616,009	2,516,598	1,417,189
Total operating revenue	<u>\$ 243,999,942</u>	<u>\$ 207,613,227</u>	<u>\$ 182,070,542</u>
Operating expenses			
Salaries and benefits	\$ 113,877,798	\$ 108,244,634	\$ 99,683,870
Supplies and other	62,967,578	57,294,342	59,355,744
Professional fees and purchased services	62,198,608	62,823,354	71,565,457
Depreciation	11,683,555	12,062,291	11,978,518
Total operating expenses	<u>250,727,539</u>	<u>240,424,621</u>	<u>242,583,589</u>
Operating loss	<u>(6,727,597)</u>	<u>(32,811,394)</u>	<u>(60,513,047)</u>
Nonoperating revenue (expenses)			
Investment loss, net	1,702,252	(1,091,923)	(7,272,373)
Government stimulus income	1,084,554	-	7,455,649
Noncapital contributions	1,292,954	1,340,012	1,553,435
Gain on sale of capital assets	100,000	-	-
Interest Expense	(2,412,570)	(2,535,808)	(1,380,795)
Total nonoperating revenue, net	<u>1,767,190</u>	<u>(2,287,719)</u>	<u>355,916</u>
Increase (decrease) in net position	(4,960,407)	(35,099,113)	(60,157,131)
Net position, beginning of year	<u>93,761,141</u>	<u>128,860,254</u>	<u>189,017,385</u>
Net position, ending of year	<u>\$ 88,800,734</u>	<u>\$ 93,761,141</u>	<u>\$ 128,860,254</u>

Operating loss – The first component of the overall change in the Hospital's net position is its operating loss - generally, the difference between net patient service revenue and the expenses incurred to perform those services. The Hospital reported an operating loss of approximately \$6.7 million in fiscal year 2024, compared to an operating loss of approximately \$32.8 million in fiscal year 2023. The Hospital reported an operating loss of approximately \$32.8 million in fiscal year 2023, compared to an operating loss of approximately \$60.5 million in fiscal year 2022.

The Hospital began operations at its current location in 1974, when it was agreed that, in order to merge the two existing community hospitals into one, a tax levy for revenue bonds would be issued for the construction of a new facility. The original Board of Directors of the Hospital promised the community that once the bonds were repaid, the Hospital would be self-sufficient and would no longer require taxes for operations. The Hospital retired its original revenue bonds in 1986 and has not levied a tax to residents of the district since that time.

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2024 and 2023

The Hospital's operating loss of approximately \$6.7 million in fiscal year 2024 compared unfavorably to the Hospital's budgeted operating income of approximately \$412 thousand. This operating loss in fiscal year 2024 represents an improvement from the operating loss of approximately \$32.8 million in fiscal year 2023. The Hospital's operating loss of approximately \$32.8 million in fiscal year 2023 compared unfavorably to the Hospital's budgeted operating income of approximately \$5.5 million. This operating loss in fiscal year 2023 represents an improvement from the operating loss of approximately \$60.5 million in fiscal year 2022. The main reasons that the operating results in fiscal year 2024 and 2023 were lower than budgeted but improved from fiscal year 2023 and 2022 are:

- Net patient service revenue was 17.2% higher in fiscal year 2024 as compared to fiscal year 2023 and only 4% higher than budget. Net patient service revenue was 13.5% higher in fiscal year 2023 as compared to fiscal year 2022 and only 0.80% lower than budget. Surgical case volumes decreased 8.8% from the prior year due to movement of eye procedures to the local ambulatory surgery center.
- Revenue cycle issues identified in fiscal year 2023 were worked on in fiscal year 2024 and fewer denials were seen in fiscal year 2024. The focus on improved revenue cycle also lead to better cash collections and approximately a 94.9% overall net collection rate. This is down slightly from fiscal year 2023 rate of 101.1% primarily due to moving from capitation payment to fee for service (FFS) from the Medicaid CCO plan. Revenue cycle issues identified in fiscal year 2022 were worked on in fiscal year 2023 and fewer denials were seen in fiscal year 2023. The focus on improved revenue cycle also lead to better cash collections and approximately a 3.6% overall net collection rate increases from 2022.
- Total salaries and benefits increased approximately \$113.9 million (4.9%) in fiscal year 2024 as compared to fiscal year 2023 and approximately \$8.3 million (7.8%) higher than budget. This increase in salaries and benefits expense was offset by a decreased expense in temporary (contract) labor of approximately \$3.3 million (12.2%) as compared to fiscal year 2023. As a percentage of total operating revenue, total salaries and benefits for fiscal year 2024 were 46.7%, down from 52.1% in fiscal year 2023. Total salaries and benefits increased approximately \$3.5 million (4.4%) in fiscal year 2023 as compared to fiscal year 2022 and approximately \$3.9 million (4.9%) higher than budget due to settling the expired contract with United Food and Commercial Workers Union (UFCW) and planned increases due to the Oregon Nurses Association (ONA) settlement in the prior fiscal year. This increase in salaries and benefits expense was offset by a decreased expense in temporary (contract) labor of approximately \$3.6 million (11.6%) as compared to fiscal year 2022.
- The Hospital currently has three unions with whom it must negotiate. As of June 30, 2024, approximately 52% of the Hospital's employees are covered under a collective bargaining agreement (CBA) with the UFCW, and the contract expires in June 30, 2025. Approximately 31% of the Hospital's employees are covered under a CBA with the Oregon Nurses Association (ONA), which expired on June 30, 2024. The teams had a tentative agreement prior to the expiration. The contract, which expires on June 30, 2026, was ratified on July 24, 2024. Approximately 2% of the Hospital's Employees are covered under a CBA with the Teamsters, which expired on June 30, 2024. The new contract was ratified prior to the end of the fiscal year. As of June 30, 2023, approximately 50% of the Hospital's employees are covered under a collective bargaining agreement (CBA) with the UFCW. Approximately 31% of the Hospital's employees are covered under a CBA with the Oregon Nurses Association (ONA).

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2024 and 2023

- Professional fees and purchased services expense decreased significantly in 2024 (1.0%) primarily due to the decreased contract labor mentioned above. Professional fees and purchased services expense decreased significantly in 2023 (12.2%) primarily due to the decreased contract labor mentioned above, as well as the contributions made in fiscal year 2022 to the local physicians with their EPIC system.
- Depreciation and amortization expense rose slightly at approximately \$11.7 million in fiscal year 2024 compared to approximately \$12.1 million fiscal year 2023. Depreciation and amortization expense rose slightly at approximately \$12.1 million in fiscal year 2023 compared to approximately \$12.0 million fiscal year 2022.
- Supplies and other expenses increased 9.9% from fiscal year 2023, despite a nearly 17.2% increase in Net Patient Service Revenue. Proactive expense containment actions drove the savings down. Supplies and other expenses decreased 3.5% from fiscal year 2022, despite a nearly 14% increase in Net Patient Service Revenue. The leading cause of this decrease was pharmaceutical expense. Total expenditures for supplies and pharmaceuticals were approximately \$40.7 million in 2023 compared to approximately \$42.9 million in fiscal year 2022, a decrease of approximately 5.0%. The Hospital election into 340b pricing at the end of fiscal year 2022 was the driver of the reduced expense in fiscal year 2023.

The Hospital oftentimes provides care for patients who have little or no health insurance or other means of repayment. As discussed above, this service to the community is consistent with the goals established for the Hospital when the current facility was built. When patients meet the Hospital's established charity guidelines, all or part of their bill is written off. In fiscal years 2024 and 2023, the amount of charity care (at gross charges) was approximately \$2.2 million and \$3.2 million, respectively. Because there is no expectation of repayment, charity care is not reported as net patient service revenue of the Hospital. There are specific guidelines used to apply for charity care; however, many patients who would qualify for charity care do not take the time to apply, so they cannot be included in charity allowances according to State and Federal regulations. The Hospital continues to encourage these individuals to apply for charity care and will continue to assist such individuals in the process, as necessary. New legislation passed in calendar year 2024 now requires hospitals in Oregon to presumptively screen patients for charity care. The impact of this legislation will be seen starting in fiscal year 2025. In addition, the Hospital's provision for bad debts was approximately \$5.5 million and \$2.6 million in fiscal years 2024 and 2023, respectively.

In addition to the charity care provided and bad debt write-offs, the Hospital provides care to government sponsored programs such as Medicare, Medicaid, and the Oregon Health Plan, where a large discount from billed charges is mandated. In many cases, the payment received is less than the actual cost of treatment. The aggregate amount of these contractual deductions in fiscal years 2024 and 2023 was approximately \$318.3 million and \$247.0 million, respectively.

Medicare Advantage plans are plans that are contracted with commercial payors but are funded and follow traditional Medicare guidelines. In many cases, the payment received is less than the actual cost of treatment. The aggregate amount of these contractual deductions in fiscal years 2024 and 2023 was approximately \$85.6 million and \$60.6 million, respectively.

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2024 and 2023

The Hospital has also entered into payment agreements with certain commercial insurance carriers, other governmental entities, health maintenance organizations, and preferred provider organizations to provide medical services to subscribing participants. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates based on the type of service delivered, all of which are generally less than the Hospital's billed charges. The aggregate amount of these other contractual deductions in fiscal years 2024 and 2023 was approximately \$62.2 million and \$58.7 million, respectively.

Nonoperating Revenue and Expenses – In most years, nonoperating revenue and expenses generally consist primarily of interest income, realized and unrealized gains and losses on investments, noncapital contributions, and interest expense. The investment income (loss) is earned on long-term investments which may only be invested in allowable fixed-income investments pursuant to State regulations. The net investment gain was approximately \$1.7 million in fiscal year 2024 compared with a net investment loss of approximately \$1.1 million in fiscal year 2023. Included in net investment gain in fiscal year 2024 was approximately \$2.4 million of net unrealized market losses and approximately \$157 thousand in investment fees. The net investment loss was approximately \$1.1 million in fiscal year 2023 compared with a net investment loss of approximately \$7.3 million in fiscal year 2022. Included in net investment loss in fiscal year 2023 was approximately \$216 thousand of net unrealized market losses and approximately \$183 thousand in investment fees. In fiscal years 2022, the Hospital recognized income from Provider Relief Funds of approximately \$7.5 million while zero income was recognized in fiscal year 2023 due to the government termination of the COVID Pandemic.

Revenues for Kids Hope Center, an all-inclusive Center for child abuse where forensic child interviews and medical examinations are conducted, and Bright Beginnings Learning Center, a community daycare and early learning center are also recognized in this category. These revenues contributed approximately \$1.3 million in fiscal years 2024 and 2023, respectively. These revenues contributed approximately \$1.3 million and approximately \$1.5 million in fiscal years 2023 and 2022, respectively.

Interest expense decreased from approximately \$2.5 million in fiscal year 2023 to approximately \$2.4 million in fiscal year 2024. Interest expense increased from approximately \$1.4 million in fiscal year 2022 to approximately \$2.5 million in fiscal year 2023, as the Hospital's \$50 million borrowing from Bank of the West (BOTW) was in default for most of fiscal year 2023. At the end of fiscal year 2023 the Hospital and BOTW agreed to restructure the Hospital's debt to allow for the Hospital to exit default and continue its planning to resume financial viability. This agreement was finalized in October 2023. As previously discussed, the Hospital does not receive any tax revenue even though it is a district hospital.

The Hospital filed for Employee Retention Credit (ERC) in fiscal year 2024 as it was determined that the Hospital qualified for the 1st quarter of 2021. The \$1.1 million credit was recognized in other income in fiscal year 2024.

The Hospital's cash flows – Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenue and expenses, as discussed earlier. The largest cash outflows each year are typically the payments to suppliers and contractors, which totaled approximately \$123.2 million and \$121.9 million in fiscal years 2024 and 2023, respectively, and payments to employees, which totaled approximately \$110.1 million and \$105.9 million in fiscal years 2024 and 2023, respectively. In the aggregate, the Hospital had a negative cash flow from operations of approximately \$2.2 million and \$22.1 million, in fiscal years 2024 and 2023, respectively.

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2024 and 2023

Capital assets – As of June 30, 2024, the Hospital had approximately \$70.6 million invested in capital assets, net of accumulated depreciation and amortization, as detailed in Note 4 to the financial statements. As of June 30, 2023, the Hospital had approximately \$76.5 million invested in capital assets, net of accumulated depreciation and amortization. In fiscal years 2024 and 2023, the Hospital purchased or constructed new equipment and capital improvements costing approximately \$3.0 million and \$3.2 million, respectively. In addition, the Hospital capitalized various lease contracts with a net balance of approximately \$2.3 million as of June 30, 2024 under recent GASB standards. Furthermore, capital assets at June 30, 2024 include approximately \$7.2 million of subscription-based information technology arrangements (SBITA) that are required to be capitalized under a GASB standard that the Hospital adopted in fiscal year 2020.

Long-term debt – As of June 30, 2024, the Hospital had \$46.6 million in long-term obligations outstanding. This compares to approximately \$47.9 million in long-term obligations outstanding as of June 30, 2023, (including the current portion). Long-term obligations outstanding as of June 30, 2024 consist of approximately \$46.6 million in borrowings under a term loan owed to BOTW.

In December 2020, the Hospital entered into a \$50.0 million term loan agreement (the Note Payable) with BOTW. The proceeds of the Note Payable were used to help finance the new EPIC system and a new human resources and financial system and to repay the Hospital's pre-existing debt to Umpqua Bank. Under terms of the Note Payable, the Hospital was required to make interest-only payments in monthly installments of approximately \$100,000 through January 2022. Beginning in February 2022, the Hospital was required to make payments in monthly installments of principal and interest of approximately \$220,000, with any remaining outstanding principal and accrued interest due in December 2030. The debt was modified in April 2023, after defaulting on the bank covenant ratios. The initial interest rate on the Note Payable was 2.34%, and the rate is adjusted quarterly based on the Hospital's most recent debt service coverage ratio for the twelve-month period then ended. The quarterly interest rates under terms of the Note Payable range from 4.00 to 5.00%, unless the Hospital is in default (see below) under terms of the Note Payable, in which case, interest is payable at a default rate. The default rate is a variable rate of interest equal to the greater of (1) BOTW's prime interest rate plus 3.00% (8.5% as of June 30, 2024) or (2) the Federal Funds Rate plus 5.50% (5.5% as of June 30, 2024), unless BOTW provides the Hospital with a forbearance period. The Note Payable is secured by a pledge of the Hospital's revenues and real estate. Outstanding borrowings under the Note Payable as of June 30, 2024 were \$46.6 million. The Note Payable may be prepaid in whole or in part, with a prepayment penalty. The Note Payable includes requirements to meet certain financial and operating covenants.

In the event of a default by the Hospital - such as failing to make payments on the Note Payable or the Line of Credit as they are due or failing to comply with the required financial and operating covenants (including a "Debt Service Coverage" (DSC) covenant) - all amounts due under both the Note Payable and the Line of Credit may, at BOTW's discretion, become immediately due and payable by the Hospital.

Bay Area Health District, dba Bay Area Hospital

Management's Discussion and Analysis

Years Ended June 30, 2024 and 2023

Other economic factors – The Hospital is Coos County's largest employer, followed by The Mill Casino, the local school districts, and Southwestern Oregon Community College. In recent years, the area has experienced significant growth in the retiree population moving to the coast from California and other states, and tourism is growing as an important contributor to the local economy. The South Coast Development Council (the SCDC) was started in 2001 to help attract industry and business to the Southern Oregon Coast. The unemployment rate in Coos County was 4.7% in July 2024 compared to 4.7% in August 2023. The pre-pandemic rate was 3.8% in November 2019. Tourism and local restaurants have been seriously impacted by the COVID-19 pandemic, and the recovery has been slow. Recent development of a Coos Bay Village has brought new businesses to the area. The developers of that development launched a new development, Teakwood Plaza. Overall, the Teakwood Plaza is about 50,000 square feet. In addition, in June 2023, the Oregon International Port of Coos Bay obtained \$40 million from the Oregon Legislature to dredge and expand the existing waterway to accommodate large container ships. The Port of Coos Bay has also submitted a Mega Grant proposal in August 2023. While they were not awarded the Mega Grant, submissions for three significant federal grants have been submitted in July 2024. The Hospital continues to closely monitor external forces that affect the Hospital's financial position in order to make timely operational changes, as necessary, to adapt.

Contacting the Hospital's financial management – This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Mary Lou Tate, Chief Financial Officer, at Bay Area Hospital, 1775 Thompson Road, Coos Bay, Oregon 97420.

Financial Statements

Bay Area Health District, dba Bay Area Hospital
Statements of Net Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and cash equivalents	\$ 10,815,033	\$ 12,030,483
Patient accounts receivable, net of allowance for doubtful accounts of \$5,262,052 in 2024 and \$5,002,271 in 2023	28,459,040	19,921,644
Supplies inventory	5,131,308	5,205,080
Current portion of assets limited as to use	11,370,086	-
Prepaid expenses and other current assets	<u>7,400,592</u>	<u>4,530,204</u>
Total current assets	<u>63,176,059</u>	<u>41,687,411</u>
Assets limited as to use, net of current portion	36,570,822	53,401,226
Capital assets		
Depreciable capital assets, net	69,238,681	74,844,553
Nondepreciable capital assets	<u>1,410,339</u>	<u>1,690,790</u>
Total capital assets, net	<u>70,649,020</u>	<u>76,535,343</u>
Other assets		
Lease right-of-use assets, net	2,287,724	3,126,052
Subscription based right-of-use assets, net	7,167,957	8,351,188
Other noncurrent assets	<u>684,051</u>	<u>1,096,420</u>
Total other assets	<u>10,139,732</u>	<u>12,573,660</u>
Total assets	<u>180,535,633</u>	<u>184,197,640</u>
Deferred outflows of resources		
Defined benefit pension plan	9,154,948	13,186,347
Postemployment health care plan	<u>334,182</u>	<u>399,007</u>
Total deferred outflows of resources	<u>9,489,130</u>	<u>13,585,354</u>
Total assets and deferred outflows of resources	<u>\$ 190,024,763</u>	<u>\$ 197,782,994</u>

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current liabilities		
Accounts payable	\$ 9,869,356	\$ 7,192,827
Accrued liabilities		
Payroll, payroll taxes, and withholdings	4,234,649	3,580,718
Paid time off	5,770,522	5,389,005
Other	6,483,503	6,307,594
Estimated third-party payor settlements payable, net	3,750,352	5,676,967
Current portion of long-term debt	1,576,090	1,539,671
Current portion of lease obligations	838,740	814,551
Current portion of subscription liabilities	1,136,452	1,191,465
Total current liabilities	<u>33,659,664</u>	<u>31,692,798</u>
Noncurrent liabilities		
Long-term debt, net of current portion	45,065,869	46,339,829
Long-term portion of lease obligation	1,522,552	2,361,292
Long-term portion of subscription liabilities	2,915,058	3,245,226
Net pension liability	3,652,580	7,133,416
Other noncurrent liabilities	3,010,933	3,093,390
Total noncurrent liabilities	<u>56,166,992</u>	<u>62,173,153</u>
Total liabilities	<u>89,826,656</u>	<u>93,865,951</u>
Deferred inflows of resources		
Defined benefit pension plan	10,419,894	8,863,049
Postemployment health care plan	977,479	1,292,853
Total deferred inflows of resources	<u>11,397,373</u>	<u>10,155,902</u>
Total liabilities and deferred inflows of resources	<u>101,224,029</u>	<u>104,021,853</u>
Net position		
Net investment in capital assets	27,049,940	32,520,549
Unrestricted	61,750,794	61,240,592
Total net position	<u>88,800,734</u>	<u>93,761,141</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 190,024,763</u></u>	<u><u>\$ 197,782,994</u></u>

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital
Statements of Revenue, Expenses and Changes in Net Position
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
OPERATING REVENUES		
Net patient service revenue - net of provision for bad debts of \$5,484,942 (\$2,597,567 in 2023)	\$ 240,383,933	\$ 205,096,629
Other operating revenue	<u>3,616,009</u>	<u>2,516,598</u>
Total operating revenue	<u>243,999,942</u>	<u>207,613,227</u>
OPERATING EXPENSES		
Salaries and benefits	113,877,798	108,244,634
Supplies and other	62,967,578	57,294,342
Professional fees and purchased services	62,198,608	62,823,354
Depreciation and amortization	<u>11,683,555</u>	<u>12,062,291</u>
Total operating expenses	<u>250,727,539</u>	<u>240,424,621</u>
OPERATING LOSS	<u>(6,727,597)</u>	<u>(32,811,394)</u>
NONOPERATING (EXPENSES) INCOME		
Investment gain (loss), net	1,702,252	(1,091,923)
Government stimulus income	1,084,554	-
Noncapital contributions	1,292,954	1,340,012
Gain on sale of capital assets	100,000	-
Interest expense	<u>(2,412,570)</u>	<u>(2,535,808)</u>
Total nonoperating (expenses) income	<u>1,767,190</u>	<u>(2,287,719)</u>
DECREASE IN NET POSITION	(4,960,407)	(35,099,113)
NET POSITION, beginning of year	<u>93,761,141</u>	<u>128,860,254</u>
NET POSITION, end of year	<u><u>\$ 88,800,734</u></u>	<u><u>\$ 93,761,141</u></u>

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	\$ 229,919,922	\$ 209,088,309
Payments to suppliers and contractors	(123,251,365)	(121,893,780)
Payments to employees	(110,125,217)	(105,873,543)
Other receipts and payments – net	1,226,648	(3,381,083)
Net cash used by operating activities	(2,230,012)	(22,060,097)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipt of government stimulus grants	1,084,554	-
Noncapital contributions	1,292,954	1,340,012
Net cash provided by noncapital financing activities	2,377,508	1,340,012
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets – net	(3,019,137)	(3,176,155)
Proceeds from sale of property, plant and equip	168,948	-
Proceeds from issuance of long-term debt	146,949	(8,000,000)
Principal paid on long-term debt	(1,384,490)	(1,500,782)
Payments lease obligations	(814,551)	(734,648)
Payments of subscription liabilities	(1,210,665)	(1,157,480)
Interest paid on long-term obligations	(2,412,570)	(2,535,808)
Net cash used by capital and related financing activities	(8,525,516)	(17,104,873)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases on investments	(39,862,640)	(46,094,336)
Proceeds from sales of investments	45,322,958	77,463,450
Other	-	2,561,256
Investment (loss) – net	1,702,252	(1,091,923)
Net cash provided by investing activities	7,162,570	32,838,447
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,215,450)	(4,986,511)
CASH AND CASH EQUIVALENTS, beginning of year	12,030,483	17,016,994
CASH AND CASH EQUIVALENTS, end of year	\$ 10,815,033	\$ 12,030,483

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
RECONCILIATION OF OPERATING LOSS TO		
NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (6,727,597)	\$ (32,811,394)
Adjustments to reconcile operating loss to net cash		
used by operating activities		
Depreciation and amortization	8,836,512	9,279,966
Amortization of lease right-of-use asset	838,328	762,090
Amortization of subscription assets	2,008,715	2,020,235
Provision for bad debts	5,484,942	2,597,567
Changes in certain operating assets and liabilities		
Patient accounts receivable	(14,022,338)	1,946,408
Supplies inventory	73,772	1,056,647
Prepaid expenses and other current assets	(2,870,388)	(119,465)
Net pension asset and pension liability	2,107,408	2,599,731
Other noncurrent assets	412,369	39,269
Accounts payable	2,676,529	(3,947,863)
Accrued liabilities	1,211,357	2,452,255
Estimated third-party payor settlements payable, net	(1,926,615)	(552,295)
Medicare accelerated payments	-	(7,156,518)
Other noncurrent liabilities	(333,006)	(226,730)
Net cash used by operating activities	<u>\$ (2,230,012)</u>	<u>\$ (22,060,097)</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING		
AND FINANCING ACTIVITIES		
Lease assets obtained in exchange for lease liabilities	<u>\$ -</u>	<u>\$ 1,245,299</u>
Subscription-based information technology arrangement (SBITA) assets		
obtained in exchange for SBITA liabilities	<u>\$ 825,484</u>	<u>\$ -</u>

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital
Statement of Fiduciary Net Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Cash and cash equivalents	\$ 4,442,525	\$ 4,449,505
Investments at fair value – mutual funds	<u>51,227,782</u>	<u>48,529,333</u>
Total assets	<u>55,670,307</u>	<u>52,978,838</u>
Net position restricted for pension benefits	<u><u>\$ 55,670,307</u></u>	<u><u>\$ 52,978,838</u></u>

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital
Statement of Changes in Fiduciary Net Position
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Additions		
Investment income		
Net appreciation in fair value of investments	\$ 6,542,515	\$ 4,960,639
Dividends	<u>1,270,512</u>	<u>1,151,425</u>
Total investment income	<u>7,813,027</u>	<u>6,112,064</u>
Employer contributions	-	100,000
Total additions	<u>7,813,027</u>	<u>6,212,064</u>
Deductions		
Benefits paid to participants	<u>5,121,558</u>	<u>5,078,069</u>
Total deductions	<u>5,121,558</u>	<u>5,078,069</u>
Increase in net position	2,691,469	1,133,995
Net position restricted for pension benefits, beginning of year	<u>52,978,838</u>	<u>51,844,843</u>
Net position restricted for pension benefits, end of year	<u><u>\$ 55,670,307</u></u>	<u><u>\$ 52,978,838</u></u>

See accompanying notes.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

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

Business and organization – Bay Area Health District, dba Bay Area Hospital (the Hospital), was incorporated as a municipal corporation in Coos County, Oregon in June 1952. The Hospital provides various health care and health care related services to the citizens of Coos Bay and North Bend, Oregon and to others in the Southern Oregon Coastal area.

The Hospital is the trustee, or fiduciary, for a defined benefit employee pension plan (the Defined Benefit Plan) (see Note 9). The Hospital is responsible for the assets of the Defined Benefit Plan which – because of a trust arrangement – can be used only for the trust beneficiaries. All of the Hospital's fiduciary activities (which are solely related to the Defined Benefit Plan) are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 22 and 23. These activities are excluded from the Hospital's other financial statements because the Hospital cannot use these assets to finance its operations. The Hospital is responsible for ensuring that the assets reported in this fiduciary fund are used for their intended purposes.

The Hospital receives support from Bay Area Hospital Auxiliary (the Auxiliary). The Auxiliary is a separate nonprofit corporation and a tax-exempt organization under the provisions of the Internal Revenue Code (the Code).

The Hospital has also established the Bay Area Community Information Agency (BACIA), a separate governmental agency with the purpose of facilitating the exchange of electronic health care information among health care providers in the Hospital's operating region. BACIA's board of directors is appointed by the Hospital's Board of Directors (the Board) and is required to include at least one member of the Board or management of the Hospital (Management). Although the Hospital has agreed to provide support to fund BACIA's operations as needed, no funding was required for the years ended June 30, 2024 and 2023. In June 2024, BACIA was dissolved by the Board of Directors.

Basis of presentation and accounting – The accompanying financial statements include the accounts and transactions of the Hospital and – as described above – the Hospital's fiduciary activities related to the defined benefit pension plan. The accompanying financial statements do not include the accounts and transactions of the Auxiliary or BACIA, as such accounts and transactions are not significant to the Hospital's separate financial statements. The Hospital is not a component unit of any other organization.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S.), as applied to governmental units (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Accordingly, the Hospital utilizes the enterprise fund method of accounting, whereby revenue, income, gains, expenses, and losses are recognized on the accrual basis using the economic resources measurement focus. Substantially all revenue, income, gains, expenses, and losses are subject to accrual. Since the Hospital is only engaged in business-type activities and fiduciary activities, it is required to present only the financial statements required for enterprise funds and fiduciary funds.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Use of estimates – The preparation of financial statements in accordance with GAAP requires 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 financial statements and the reported amounts of revenue, income, gains, expenses, and losses during the reporting period. Actual results could differ from those estimates.

Budgets – The Hospital is required to prepare and adopt an annual operating budget in accordance with Oregon Local Budget Law. This budget is prepared differently, in some respects, from GAAP. The differences are primarily as follows:

- Principal debt service payments are treated as expenditures for budgetary purposes.
- Purchases of capital assets are treated as capital outlay expenditures for budgetary purposes.
- Depreciation expense is not budgeted.

Expenditures are controlled by appropriations adopted by resolutions of the Board, as permitted by Oregon Local Budget Law. The Hospital makes annual appropriations by object classification (i.e., personal services, materials and services, capital outlay, and debt service). Unexpended appropriations lapse at the end of each fiscal year.

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 investments (see Note 2).

Patient accounts receivable and allowance for doubtful accounts – The collection of receivables from third-party payors and patients is the Hospital's primary source of cash and is critical to its operating performance. When the Hospital provides care to patients, it does not require collateral; however, it maintains an estimated allowance for doubtful accounts. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but the patient is responsible for the remaining amounts outstanding (generally deductibles and co-payments). The Hospital does not maintain a significant allowance for doubtful accounts related to patient accounts receivable from third-party payors, nor has it historically had significant bad debt write-offs of patient accounts receivable from third-party payors. However, for services provided to patients who have third-party coverage, the Hospital records the related patient service revenue and patient accounts receivable net of contractual discounts and allowances.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

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

Significant concentrations of net patient accounts receivable as of June 30, 2024 and 2023 were approximately as follows:

	2024	2023
Medicare	38%	32%
Commercial insurance	30%	35%
Medicaid and Oregon Health Plan (OHP)	22%	24%
Other negotiated contracts	3%	4%
Self-pay	7%	5%
	<u>100%</u>	<u>100%</u>

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

Investments – Investments consist of assets (exchange-traded funds (ETFs), a money market account, mortgage-backed securities, U.S. Government Agency obligations, corporate obligations, U.S. Treasury securities, and municipal bonds) internally designated for capital acquisitions (internally designated assets) designated by the Board for future capital acquisitions (over which the Board retains control and may, at its discretion, subsequently use for other purposes) (see Note 3). Investments are stated at fair value in the accompanying statements of net position (see Note 14 for a discussion of fair value measurements). Interest, dividends, and gains (losses) – both realized and unrealized – on these investments are included in nonoperating revenue when earned (incurred).

Capital assets – The Hospital considers an asset which has an estimated useful life in excess of one year to be a capital asset. Purchased capital assets costing more than \$5,000 are recorded at historical cost. Capital assets costing \$5,000 or less are recorded as expense in the year of acquisition. Contributed capital assets are recorded at their estimated fair value at the time of their donation. Improvements and replacements of capital assets are capitalized. Routine maintenance and repairs are charged to expense as incurred.

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Notes to Financial Statements

All capital assets other than land are depreciated over their estimated useful lives using the straight-line method. Leases and subscription-based information technology (IT) arrangements (SBITAs) that are capitalized in accordance with GASB standards (see below) are recorded separately in the accompanying statement of net position and are amortized over the lease and/or contract terms. Such amortization is included in depreciation and amortization expense in the accompanying financial statements.

Depreciation of assets in construction in progress begins when such assets are placed in service. Useful lives of depreciable assets are based on guidelines published by the American Hospital Association.

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

Leases – The Hospital has various leasing arrangements, which are primarily for certain real property such as administration offices, as well as for certain medical and office equipment. The Hospital determines if an arrangement is a lease at inception of the contract. For each lease, the Hospital records a lease asset (representing the right to use the underlying asset for the lease term) and a lease liability (representing the obligation to make lease payments required under the terms of the lease). Lease assets and lease liabilities are recognized at the commencement date based on the present value of lease payments required over the lease term. The Hospital uses its estimated incremental borrowing rate – derived from information available at the lease commencement date – as the discount rate when determining the present value of lease payments.

Many of the Hospital's lease agreements include one or more renewal options. Renewal terms generally extend the related lease from one to five years at the then market rate of rental payment or at a predetermined monthly payment in accordance with the lease agreement. All such renewal options are at the Hospital's discretion. Renewal options are evaluated at the commencement of each lease; only those that are reasonably certain of exercise are included in determining the appropriate lease term and for purposes of calculating the initial lease asset and lease liability.

Certain lease agreements for real property require variable lease payments based on actual common area maintenance expenses and/or real estate taxes. Variable lease payments may also include escalating rent payments that are not fixed at lease commencement but are based on an index that is determined in future periods based on changes in the Consumer Price Index or other measures of inflation. These variable lease payments are recognized in operating expenses but are not included in the lease asset or lease liability balances. The Hospital's lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

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Subscription-Based Information Technology Arrangements (SBITAs) – A SBITA is a contract that conveys to the Hospital control of the right to use another party's (i.e., a vendor's) information technology (IT) software – alone or in combination with tangible capital assets – as specified in the contract for a period of time in an exchange or exchange-like transaction. The Hospital has various SBITAs, which are primarily for human resources, accounting, and payroll system, as well as for certain other IT software. The Hospital determines if an arrangement is a SBITA at inception of the contract. For each SBITA, the Hospital records a right-to-use subscription asset (i.e., an intangible asset representing the right to use the underlying IT software for the contract term) and a corresponding subscription liability (representing the obligation to make payments required under the terms of the contract). Subscription-based IT assets and liabilities are recognized at the commencement of the subscription term – which occurs when the initial implementation stage of an IT project is completed – based on the present value of subscription payments expected to be made during the subscription term. The Hospital uses its estimated incremental borrowing rate – derived from information available at the SBITA commencement date – as the discount rate when determining the present value of subscription payments.

Certain of the Hospital's SBITAs include one or more renewal options. Renewal terms generally extend the related subscription period for multiple one-year periods at a predetermined monthly payment in accordance with the SBITA contract. All such renewal options are at the Hospital's discretion. Renewal options are evaluated at the commencement of each SBITA; only those that are reasonably certain of exercise are included in determining the appropriate subscription term and for purposes of calculating the initial right-to-use subscription asset and subscription liability.

Paid time off (PTO) – The Hospital's employees earn PTO at varying rates depending on years of service. Employees can accumulate unused PTO from one year to the next, except for PTO in excess of 525 hours. Twice a year, employees can request that up to 80 hours of their unused PTO in excess of 80 hours be paid to them in cash, provided that they have taken at least 80 hours of PTO during the previous year. All unused PTO is paid to employees in cash upon their termination of employment from the Hospital, if proper notice has been given.

Net position, deferred outflows of resources, and deferred inflows of resources – A deferred outflow of resources represents the consumption of net position that is applicable to a future reporting period. A deferred inflow of resources represents the acquisition of net position that is applicable to a future reporting period. As of June 30, 2024 and 2023, all of the Hospital's deferred outflows and inflows of resources related to the Hospital's defined benefit pension plan (see Note 9) and postemployment health care plan (see Note 11).

Net position of municipal hospitals is typically classified into three broad components as follows:

- *Net investment in capital assets* consists of capital assets, leases, and SBITAs, net of accumulated depreciation and amortization, as well as net of the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.
- *Restricted net position* can include two components: *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by bond indentures, and *restricted nonexpendable net position* equals the principal portion of permanent endowments. As of June 30, 2024 and 2023, the Hospital had no restricted net position.

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- *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted expendable* or *restricted nonexpendable net position*.

Net patient service revenue – The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements primarily include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments, and capitated payments. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered and includes estimates for potential retroactive revenue adjustments under reimbursement agreements with third-party payors. Such estimates are adjusted in future periods as final settlements are determined.

A significant portion of the Hospital's services is provided to Medicare, Medicaid, and Oregon Health Plan (OHP) patients under contractual arrangements. Inpatient acute care services rendered by the Hospital to Medicare and Medicaid program beneficiaries are generally 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-adjusted 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. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. Home health services related to Medicare beneficiaries are reimbursed under a prospective payment system methodology. Certain outpatient services related to Medicare and Medicaid beneficiaries are reimbursed under 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 and Medicaid. The Hospital's cost reports have been audited and final settled by the Medicare fiscal intermediary through June 30, 2018 and Medicaid through June 30, 2017.

The Hospital receives federal funding through the Disproportionate Share Hospital (DSH) Medicaid program. DSH provides additional funding to hospitals that have a disproportionate share of uncompensated care and Medicaid patients, and funds are distributed to hospitals using an agreed-upon distribution methodology. During the year ended June 30, 2022, the Hospital received an insignificant amount of DSH funds, which is recorded in net patient service revenue in the accompanying statement of revenue, expenses, and changes in net position. During the year ended June 30, 2022, the Hospital's 2018 and 2019 DSH funds were audited by the Oregon Health Authority (OHA), and, as a result, it is estimated that the Hospital will need to return DSH funds aggregating approximately \$1,999,000 for those two years. The Hospital is contesting the results of the OHA audit, and the ultimate resolution of this process is currently uncertain. During the appeal, the Hospital has to return DSH funds that were received for 2020 and 2021 aggregating approximately \$1,590,000. Accordingly, the Hospital has recorded a liability for such amounts totaling approximately \$2,812,000 and \$3,869,000 as of the years ended June 30, 2024 and 2023, respectively, which is included in estimated third-party payor settlements payable in the accompanying statement of net position.

Services rendered to OHP beneficiaries are partially reimbursed under a capitation agreement. The Hospital transitioned from a capitation to a fee-for-service model effective August 1, 2023. During the years ended June 30, 2024 and 2023, the Hospital received approximately \$1,849,000 and \$21,495,000, respectively, in capitation payments related to OHP beneficiaries (see Note 13), which are included in net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position.

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

Gross and net patient service revenue for services provided by the Hospital to Medicare, Medicaid, and OHP patients aggregated approximately \$431,000,000 and \$112,000,000, respectively, for the year ended June 30, 2024, and \$320,000,000 and \$120,000,000, respectively for the year ended June 30, 2023.

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. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates based on the type of service delivered.

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 or underinsured individuals with an annual household income at, or less than, 200% 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 uninsured individuals with an annual household income of between 200% and 450% of the Guidelines. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported as net patient service revenue (see Note 8).

Operating revenue and expenses – The Hospital's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenue (expenses) – including investment income – net, grants and contributions received for purposes other than capital asset acquisition, government stimulus income, and gains and losses on disposals of capital assets – are reported as nonoperating revenue (expenses). Operating expenses include all expenses incurred to provide health care services, other than financing costs.

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Notes to Financial Statements

Grants and contributions – Periodically, the Hospital receives grants from other municipalities, as well as contributions from individuals and private organizations. During the years ended June 30, 2024 and 2023, the Hospital received grants of \$1,084,554 and \$0, respectively, from the Department of Health and Human Services (HHS) under the *Coronavirus Aid, Relief and Economic Security Act* (Acts). Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted either for specific operating purposes or for capital purposes. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted for capital acquisitions would be reported after nonoperating revenue and expenses in the statement of revenue, expenses, and changes in net position.

Oregon provider tax – Oregon levies a "provider tax" on certain qualifying hospitals, including the Hospital, to provide additional funding for OHP. The tax is based on net patient service revenue, as adjusted in accordance with the rules governing the program. The Hospital recorded provider taxes of approximately \$12,750,000 and \$10,900,000 for the years ended June 30, 2024 and 2023, respectively, which are included in supplies and other operating expenses in the accompanying statements of revenue, expenses, and changes in net position.

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 service revenue in the accompanying statement of revenue, expenses, and changes in net position. Prepaid expenses and other current assets include approximately \$3.5 million and \$3.0 million of provider taxes receivable due from OAHHS as of June 30, 2024 and 2023, respectively, and other accrued liabilities include approximately \$3.5 million and \$3.0 million of provider taxes payable to OAHHS as of June 30, 2024 and 2023, respectively, in the accompanying statement of net position. Generally, the amount of annual receipts from OAHHS matches the annual amount of taxes paid.

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; 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 insurance coverage in any of the past three years. The Hospital is self-insured for employee health care claims up to \$250,000. Employee health care claims are accrued as the incidents which give rise to them become known. The provision and accrual for estimated employee health care claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are based upon the estimated cost of settlement. Management believes that adequate amounts have been included in accrued liabilities accrued in the accompanying financial statements to cover estimated employee health care claims.

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Notes to Financial Statements

Federal and state income taxes – The Hospital is a municipal corporation. In addition, the Internal Revenue Service (IRS) has issued a determination letter stating that the Hospital is exempt from federal income taxes under Section 501(c)(3) of the Code. Accordingly, only unrelated business income is subject to federal or state income taxes. 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 financial statements.

The Hospital is classified as an affiliate of a governmental unit by the IRS. Therefore, the Hospital is not required to file a federal information return in the U.S. or a state information return in Oregon unless it has unrelated business income. Accordingly, the Hospital did not file such returns for the years ended June 30, 2024 and 2023.

Note 2 – Deposits and Investments

Cash and investments as of June 30, 2024 and 2023 consisted of the following:

	2024	2023
	<u>2024</u>	<u>2023</u>
Cash and cash equivalents		
Cash on hand	\$ 1,000	\$ 1,000
Cash deposits in a financial institution	10,814,033	12,029,483
Total cash and cash equivalents	<u>10,815,033</u>	<u>12,030,483</u>
Internally designated assets		
Money market account with an investment broker	11,370,086	2,685,518
Mortgage-backed securities	13,660,996	25,956,101
U.S. Government agency obligations	1,533,927	1,506,600
Corporate obligations	4,150,135	5,782,355
U.S. Treasury securities	17,225,764	16,925,975
Municipal bonds	<u>-</u>	<u>544,677</u>
Total internally designated assets	47,940,908	53,401,226
Total assets limited as to use	47,940,908	53,401,226
Less portion classified as current	<u>(11,370,086)</u>	<u>-</u>
Total assets limited as to use - net of current portion	<u>36,570,822</u>	<u>53,401,226</u>
Total cash and cash equivalents and assets limited as to use	<u><u>\$ 47,385,855</u></u>	<u><u>\$ 65,431,709</u></u>

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Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Hospital is required by the Oregon Revised Statutes (ORS) Chapter 295 (ORS 295) to maintain any deposits and money market accounts in financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) coverage at certain "qualified depositories." As of and for the year ended June 30, 2024 and 2023 all of the Hospital's deposits and money market accounts in financial institutions in excess of FDIC coverage were maintained at "qualified depositories."

As of June 30, 2024 and 2023, the Hospital had investments in U.S. Treasury securities, a money market account with an investment broker, mortgage-backed securities, U.S. Government agency obligations, corporate obligations, and municipal bonds. Management believes that the Hospital's credit risk with respect to these investments is minimal due to the diversity of the individual investments and the financial strength of the entities which have issued the securities or instruments. However, due to changes in economic conditions, government intervention, and interest rates, the fair value of the Hospital's investments can be volatile. Consequently, the fair value of the Hospital's investments can significantly change in the near-term as a result of such volatility.

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

As of June 30, 2024 and 2023, the Hospital's investments were rated from A2 to Aaa and A- to AA+ by Moody's Investor Service and Standard & Poor's Corporation, respectively.

Custodial credit risk, deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit insurance policy for custodial credit risk. As of June 30, 2024 and 2023, the Hospital had deposits in two financial institutions exposed to custodial credit risk as follows:

Insured by the Federal Deposit Insurance Corporation	\$ 500,000
Collateralized with securities held by the pledging financial institution's trust department or agent in other than the hospital's name	<u>10,868,631</u>
Total	<u><u>\$ 11,368,631</u></u>

The Hospital's deposits at financial institutions are insured by the FDIC up to a combined maximum of \$250,000 per financial institution.

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Notes to Financial Statements

ORS 295 governs the collateralization of Oregon public funds. Oregon's Public Funds Collateralization Program (the PFCP) was created by the Office of the Oregon State Treasurer (the OST) to facilitate bank depository, custodian, and public official compliance with ORS 295. Under the PFCP – which created a shared liability structure for participating depositories – these bank depositories are required to pledge collateral against any public funds' deposits in excess of deposit insurance amounts. Based on information that the banks are required to report quarterly, the PFCP calculates each depository bank's minimum collateral (maximum liability) that must be pledged with the custodian for the next quarter. The pledged securities are designated as subject to the pledge agreement between the depository bank, the custodian bank (the Federal Home Loan Bank of Des Moines, which acts as agent for the depository banks), and the OST, and are held for the benefit of the OST on behalf of the public depositors. As of June 30, 2024 and 2023, the aggregate Oregon public fund collateral pledged exceeded 100% of the public fund deposits held by the Hospital's depository bank.

The Hospital's investments are reported at fair value, as discussed in Note 14. As of June 30, 2024 and 2023, all of the Hospital's investments were held in the Hospital's name by an investment broker which is an agent for the Hospital.

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Debt securities with longer maturities are subject to increased risk of adverse interest rate changes. The Hospital has a formal investment policy that limits the expected maturities of investments as a means of managing its exposure to interest rate risk.

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Notes to Financial Statements

As of June 30, 2024 and 2023, the Hospital's investments in debt securities had the following contractual maturities:

June 30, 2024						
	Mortgage-backed Securities	U.S. Government Agency Obligations	Corporate Obligations	U.S. Treasury Securities	Municipal Bonds	Total
Investment maturity						
Less than one year	\$ -	\$ 1,533,927	\$ 137,516	\$ -	\$ -	\$ 1,671,443
1-5 years	2,773,565	-	1,981,512	15,185,900	-	19,940,977
6-10 years	1,266,286	-	2,031,107	2,039,864	-	5,337,257
More than 10 years	9,621,145	-	-	-	-	9,621,145
Total	<u>\$ 13,660,996</u>	<u>\$ 1,533,927</u>	<u>\$ 4,150,135</u>	<u>\$ 17,225,764</u>	<u>\$ -</u>	<u>\$ 36,570,822</u>
June 30, 2023						
	Mortgage-backed Securities	U.S. Government Agency Obligations	Corporate Obligations	U.S. Treasury Securities	Municipal Bonds	Total
Investment maturity						
Less than one year	\$ -	\$ -	\$ 1,680,363	\$ -	\$ 544,677	\$ 2,225,040
1-5 years	3,388,645	1,506,600	1,113,883	14,827,410	-	20,836,538
6-10 years	1,365,167	-	2,848,324	2,098,565	-	6,312,056
More than 10 years	21,202,289	-	139,785	-	-	21,342,074
Total	<u>\$ 25,956,101</u>	<u>\$ 1,506,600</u>	<u>\$ 5,782,355</u>	<u>\$ 16,925,975</u>	<u>\$ 544,677</u>	<u>\$ 50,715,708</u>

Concentration of credit risk – Concentration of credit risk with respect to deposits and investments is the risk of loss attributed to the magnitude of the Hospital's investment in a single issuer. As of June 30, 2024 and 2023, none of the Hospital's individual investments in corporate obligations represented 5.0% or more of its total investments.

Note 3 – Patient Accounts Receivable

Patient accounts receivable as of June 30, 2024 and 2023 consisted of the following:

	2024	2023
Receivable from patients and their insurance carriers	\$ 14,881,964	\$ 12,144,868
Receivable from Medicare, net	13,639,459	9,952,830
Receivable from Medicaid and OHP, net	5,199,669	2,826,217
Total patients accounts receivable	<u>33,721,092</u>	<u>24,923,915</u>
Less allowance for doubtful accounts	<u>(5,262,052)</u>	<u>(5,002,271)</u>
Patient accounts receivable, net	<u>\$ 28,459,040</u>	<u>\$ 19,921,644</u>

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Notes to Financial Statements

Note 4 – Capital Assets

The activity in the Hospital's capital assets and related accumulated depreciation accounts for the years ended June 30, 2024 and 2023 was as follows:

	July 1, 2023	Additions/ Provisions	Disposals	Transfers	June 30, 2024
Depreciable capital assets					
Cost					
Land improvements	\$ 2,344,681	\$ -	\$ -	\$ -	\$ 2,344,681
Buildings and improvements	104,398,275	-	-	-	104,398,275
Fixed equipment	8,786,509	-	-	3,183	8,789,692
Movable equipment	92,111,866	99,619	(68,948)	3,196,643	95,339,180
Total depreciable capital assets	207,641,331	99,619	(68,948)	3,199,826	210,871,828
Accumulated depreciation					
Land improvements	2,162,396	39,342	-	-	2,201,738
Buildings and improvements	51,044,192	3,176,500	-	-	54,220,692
Fixed equipment	6,917,149	363,534	-	-	7,280,683
Movable equipment	72,673,041	5,257,135	(142)	-	77,930,034
Total accumulated depreciation	132,796,778	8,836,511	(142)	-	141,633,147
Depreciable capital assets, net	74,844,553				69,238,681
Nondepreciable capital assets					
Land	1,138,426				1,138,426
Construction in progress	552,364	2,919,375	-	(3,199,826)	271,913
Total nondepreciable capital assets	1,690,790	\$ 2,919,375	\$ -	\$ (3,199,826)	1,410,339
Capital assets, net	\$ 76,535,343				\$ 70,649,020
	July 1, 2022	Additions/ Provisions	Disposals	Transfers	June 30, 2023
Depreciable capital assets					
Cost					
Land improvements	\$ 2,344,681	\$ -	\$ -	\$ -	\$ 2,344,681
Buildings and improvements	101,626,973	-	-	2,771,302	104,398,275
Fixed equipment	8,425,814	24,959	-	335,736	8,786,509
Movable equipment	89,615,873	1,015,206	(73,244)	1,554,031	92,111,866
Total depreciable capital assets	202,013,341	1,040,165	(73,244)	4,661,069	207,641,331
Accumulated depreciation					
Land improvements	2,115,114	47,282	-	-	2,162,396
Buildings and improvements	47,792,720	3,251,472	-	-	51,044,192
Fixed equipment	6,528,849	388,300	-	-	6,917,149
Movable equipment	67,080,133	5,592,912	(4)	-	72,673,041
Total accumulated depreciation	123,516,816	9,279,966	(4)	-	132,796,778
Depreciable capital assets, net	78,496,525				74,844,553
Nondepreciable capital assets					
Land	1,138,426	-	-	-	1,138,426
Construction in progress	3,004,203	2,209,230	-	(4,661,069)	552,364
Total nondepreciable capital assets	4,142,629	\$ 2,209,230	\$ -	\$ (4,661,069)	1,690,790
Capital assets, net	\$ 82,639,154				\$ 76,535,343

Depreciation expense of capital assets was approximately \$8,837,000 and \$9,280,000 for the years ended June 30, 2024 and 2023, respectively.

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Notes to Financial Statements

Note 5 – Lease Right-of-Use and Subscription Assets

A summary of lease right-of-use assets for the years ended June 30, 2024 and 2023 is as follows:

	<u>July 1, 2023</u>	<u>Additions</u>	<u>June 30, 2024</u>
Lease right-of-use assets			
Buildings	\$ 1,141,734	\$ -	\$ 1,141,734
Movable equipment	<u>3,253,548</u>	<u>-</u>	<u>3,253,548</u>
Total lease assets	<u>4,395,282</u>	<u>-</u>	<u>4,395,282</u>
Accumulated amortization			
Buildings	507,146	253,573	760,719
Movable equipment	<u>762,084</u>	<u>584,755</u>	<u>1,346,839</u>
Total accumulated amortization	<u>1,269,230</u>	<u>838,328</u>	<u>2,107,558</u>
Lease right-of-use assets, net	<u><u>\$ 3,126,052</u></u>		<u><u>\$ 2,287,724</u></u>
	<u>July 1, 2022</u>	<u>Additions</u>	<u>June 30, 2023</u>
Lease right-of-use assets			
Buildings	\$ 1,119,947	\$ 21,787	\$ 1,141,734
Movable equipment	<u>2,030,036</u>	<u>1,223,512</u>	<u>3,253,548</u>
Total lease assets	<u>3,149,983</u>	<u>1,245,299</u>	<u>4,395,282</u>
Accumulated amortization			
Buildings	253,573	253,573	507,146
Movable equipment	<u>253,567</u>	<u>508,517</u>	<u>762,084</u>
Total accumulated amortization	<u>507,140</u>	<u>762,090</u>	<u>1,269,230</u>
Lease right-of-use assets, net	<u><u>\$ 2,642,843</u></u>		<u><u>\$ 3,126,052</u></u>

Amortization expense of lease right-of-use assets was approximately \$838,000 and \$762,000 for the years ended June 30, 2024 and 2023, respectively.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

A summary of subscription assets for the years ended June 30, 2024 and 2023 is as follows:

	July 1, 2023	Additions	June 30, 2024
Subscription assets	\$ 13,477,932	825,484	\$ 14,303,416
Accumulated amortization	5,126,744	2,008,715	7,135,459
Subscription assets, net	<u>\$ 8,351,188</u>		<u>\$ 7,167,957</u>
	July 1, 2022	Additions	June 30, 2023
Subscription assets	\$ 13,477,932	-	\$ 13,477,932
Accumulated amortization	3,106,509	2,020,235	5,126,744
Subscription assets, net	<u>\$ 10,371,423</u>		<u>\$ 8,351,188</u>

Amortization expense of subscription assets was approximately \$2,009,000 and \$2,020,000 for the years ended June 30, 2024 and 2023, respectively.

Note 6 – Long-term Obligations and Other Noncurrent Liabilities

A schedule of changes in the Hospital's long-term obligations and other noncurrent liabilities for the year ended June 30, 2024 and 2023 is as follows:

	July 1, 2023	Additions	Reductions	June 30, 2024	Amounts Due Within One Year	Amounts Due After One Year
Long-term obligations						
Note payable	\$ 47,879,500	\$ 146,949	\$ 1,384,490	\$ 46,641,959	\$ 1,576,090	\$ 45,065,869
Total long-term obligations	47,879,500	146,949	1,384,490	46,641,959	1,576,090	45,065,869
Other noncurrent liabilities						
Net pension liability (see Note 9)	7,133,416	-	3,480,836	3,652,580	-	3,652,580
OPEB (see Note 11)	1,638,502	-	4,416	1,634,086	-	1,634,086
Estimated medical malpractice claims (see Note 12)	1,026,000	-	95,000	931,000	-	931,000
Other	428,888	16,959	-	445,847	-	445,847
Total other non-current liabilities	10,226,806	16,959	3,580,252	6,663,513	-	6,663,513
Total non-current liabilities	<u>\$ 58,106,306</u>	<u>\$ 163,908</u>	<u>\$ 4,964,742</u>	<u>\$ 53,305,472</u>	<u>\$ 1,576,090</u>	<u>\$ 51,729,382</u>

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

	July 1, 2022	Additions	Reductions	June 30, 2023	Amounts Due Within One Year	Amounts Due After One Year
Long-term obligations						
Note payable	\$ 49,380,282	\$ 1,667,704	\$ 3,168,486	\$ 47,879,500	\$ 1,539,671	\$ 46,339,829
Line of credit	8,000,000	-	8,000,000	-	-	-
Total long-term obligations	57,380,282	1,667,704	11,168,486	47,879,500	1,539,671	46,339,829
Other noncurrent liabilities						
Medicare accelerated payments	7,156,518	-	7,156,518	-	-	-
Net pension liability (see Note 9)	8,910,885	-	1,777,469	7,133,416	-	7,133,416
OPEB (see Note 11)	2,935,570	-	1,297,068	1,638,502	-	1,638,502
Estimated medical malpractice claims (see Note 12)	1,131,000	-	105,000	1,026,000	-	1,026,000
Other	402,067	26,821	-	428,888	-	428,888
Total other non-current liabilities	20,536,040	26,821	10,336,055	10,226,806	-	10,226,806
Total non-current liabilities	\$ 77,916,322	\$ 1,694,525	\$ 21,504,541	\$ 58,106,306	\$ 1,539,671	\$ 56,566,635

In December 2020, the Hospital entered into a \$50,000,000 term loan agreement (the Note Payable) with Bank of the West (BOTW). The proceeds of the Note Payable were used to help finance a new electronic health records (EHR) system (the EHR System) and a new human resources and financial system and to repay the Hospital's pre-existing debt to Umpqua Bank. Under terms of the Note Payable, beginning in February 2022, the Hospital was required to make payments in monthly installments of principal and interest of approximately \$220,000, with the remaining outstanding principal (currently estimated to be approximately \$35,300,000) and accrued interest due in December 2030. The initial interest rate on the Note Payable was 2.34%, and the rate is adjusted quarterly based on the Hospital's most recent debt service coverage ratio for the twelve-month period then ended. The Note Payable is secured by a pledge of the Hospital's revenues. The Note Payable may be prepaid in whole or in part, with a prepayment penalty. The Note Payable includes requirements to meet certain financial and operating covenants.

The Hospital and BOTW entered into a series of forbearance agreements in fiscal year 2023 and agreed to modify loan terms at the end of fiscal year 2023. The closing of this agreement occurred in October 2023 and modified the terms of the loan as to allow the Hospital to exit default at the end of fiscal year 2023. The Hospital agreed to an increased interest rate ranging from 4.00% to 5.00% based off of the debt service coverage ratio of the Hospital (4.00% as of June 30, 2024), pledged real estate collateral and agreed to more frequent financial reporting. Due to this agreement the Hospital reclassified the \$46,339,839 of the Note Payable that is due in years subsequent to 2024 as a non-current liability as of June 30, 2023. Outstanding borrowings under the Note Payable as of June 30, 2024 and 2023 were \$46,641,959 and \$47,879,500, respectively.

In December 2020, the Hospital also entered into a \$10,000,000 revolving line of credit agreement (the Line of Credit) with BOTW which expired on December 30, 2022. The Hospital repaid and closed the line of credit in fiscal year 2023.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

As of June 30, 2024, scheduled principal and interest repayments on the Note Payable were as follows:

Fiscal Years Ending June 30,	Principal	Interest
2025	\$ 1,576,090	\$ 1,809,230
2026	1,613,368	1,797,861
2027	1,651,529	1,727,003
2028	1,690,592	1,664,024
2029	1,730,579	1,594,722
Thereafter	38,379,801	2,615,321
	<u>\$ 46,641,959</u>	<u>\$ 11,208,161</u>

Note 7 – Lease Obligation and Subscription Liabilities

A summary of the changes in the lease obligation and subscription liabilities during the year ended June 30, 2024 is as follows:

	July 1, 2023	Additions	Deductions	June 30, 2024	Amounts Due Within One Year	Amounts Due After One Year
Lease liabilities	\$ 3,175,843	\$ -	\$ (814,551)	\$ 2,361,292	\$ 838,740	\$ 1,522,552
Subscription liabilities	4,436,691	825,484	(1,210,665)	4,051,510	1,136,452	2,915,058
Total	<u>\$ 7,612,534</u>	<u>\$ 825,484</u>	<u>\$ (2,025,216)</u>	<u>\$ 6,412,802</u>	<u>\$ 1,975,192</u>	<u>\$ 4,437,610</u>

	July 1, 2022	Additions	Deductions	June 30, 2023	Amounts Due Within One Year	Amounts Due After One Year
Lease liabilities	\$ 2,665,192	\$ 1,245,298	\$ (734,647)	\$ 3,175,843	\$ 814,551	\$ 2,361,292
Subscription liabilities	5,594,171	-	(1,157,480)	4,436,691	1,191,465	3,245,226
Total	<u>\$ 8,259,363</u>	<u>\$ 1,245,298</u>	<u>\$ (1,892,127)</u>	<u>\$ 7,612,534</u>	<u>\$ 2,006,016</u>	<u>\$ 5,606,518</u>

As of June 30, 2024, future scheduled principal and interest payments for leases were as follows:

Fiscal Years Ending June 30,	Principal	Interest
2025	\$ 838,740	\$ 67,925
2026	711,687	43,677
2027	344,361	26,511
2028	186,915	17,169
2029	195,502	8,582
Thereafter	84,087	948
Total	<u>\$ 2,361,292</u>	<u>\$ 164,812</u>

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Notes to Financial Statements

As of June 30, 2024, future scheduled principal and interest payments for subscription liabilities were as follows:

Fiscal Years Ending June 30,	<u>Principal</u>	<u>Interest</u>
2025	\$ 1,136,452	\$ 124,850
2026	1,109,701	90,724
2027	1,152,469	56,493
2028	315,089	31,331
2029	<u>337,799</u>	<u>15,482</u>
Total	<u>\$ 4,051,510</u>	<u>\$ 318,880</u>

Note 8 – Net Patient Service Revenue

Net patient service revenue for the years ended June 30, 2024 and 2023 was comprised of the following:

	<u>2024</u>	<u>2023</u>
Charges at established rates	\$ 714,209,259	\$ 577,667,876
Deductions		
Medicare, Medicaid, and OHP contractual allowances	403,262,121	318,641,061
Other contractual allowances	62,867,816	47,632,262
Provision for bad debts	5,484,942	2,597,567
Charity allowances	<u>2,210,447</u>	<u>3,700,357</u>
Total deductions	<u>473,825,326</u>	<u>372,571,247</u>
Net patient service revenue	<u>\$ 240,383,933</u>	<u>\$ 205,096,629</u>

Management estimates that the net cost of charity care provided was approximately \$1,121,000 and \$357,000 for the years ended June 30, 2024 and 2023, respectively. This estimate was based on the Hospital's overall ratio of costs to charges during the year. For the year ended June 30, 2024, approximately 2.5% of all inpatient admissions were classified as charity care; and approximately 2.8% of all outpatient visits in each year were classified as charity care. For the year ended June 30, 2023, approximately 4.3% of all inpatient admissions were classified as charity care; and approximately 3.4% of all outpatient visits in each year were classified as charity care. The largest proportion of services provided on a charity care basis was for emergency room, cardiology, oncology, and imaging services.

Note 9 – The Defined Benefit Plan

Plan description – The Hospital is required to make periodic contributions to the Defined Benefit Plan (Retirement Plan for Employees of Bay Area Health District). Contributions by participants to the Defined Benefit Plan are not required or permitted.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

The Defined Benefit Plan is a single-employer plan administered by Principal Life Insurance Co., with oversight by the Hospital's President/Chief Executive Officer (CEO). The Board has the authority to establish and amend benefit provisions. U.S. Bank, N.A. is the trustee of the Defined Benefit Plan. The Defined Benefit Plan's actuary is Independent Actuaries, Inc. The effective date of the Defined Benefit Plan was February 1, 1974, and it was last restated effective January 1, 2014.

Eligibility for new participants to the Defined Benefit Plan was frozen effective January 1, 2002. Also, effective January 1, 2002, and again on January 1, 2003, participants were permitted to irrevocably elect out of the Defined Benefit Plan and have no future benefits accrue. Employees who are participants in the Defined Benefit Plan are not eligible to participate in the Hospital's separate defined contribution plan (see Note 10) unless this election was made.

Prior to the 2002 amendment, all full-time or permanent part-time employees who were not covered by a separate pension plan sponsored under a collective bargaining agreement were eligible to participate in the Defined Benefit Plan. As of December 31, 2023, membership in the Defined Benefit Plan consisted of 26 active employees, 349 inactive participants currently receiving benefits, and 56 inactive participants not yet receiving benefits.

Benefits provided – Benefits under the Defined Benefit Plan are generally calculated as a percentage of the employee's compensation for each year multiplied by the employee's benefit service for that year, accumulated for each year that an employee is eligible to earn benefits. All participants in the Defined Benefit Plan are eligible for normal retirement benefits at age 65. A participant may retire after age 55 with five years of vesting service, with benefits at a reduced level. If a participant's employment is terminated for reasons other than retirement, disability, or death, the participant will be entitled to receive, upon eligibility for retirement, the benefit developed by the benefit formula multiplied by the vested percentage. The amount of the participant's benefit that is not vested will be forfeited. The Defined Benefit Plan's assets are held in trust, independent of the Hospital, but solely for the purpose of paying the Defined Benefit Plan's benefits and administrative expenses. The Defined Benefit Plan does not issue a separate stand-alone financial report; however, the accompanying financial statements include the fiduciary fund financial statements for the Defined Benefit Plan as of and for the years ended December 31, 2023 and 2022.

Funding policy – The contribution requirements of the Hospital are based on the terms of the Defined Benefit Plan document, which was approved – and may be amended – by the Board. The funding policy of the Defined Benefit Plan provides for an actuarially-computed required contribution using the Individual Entry Age Normal cost method of funding. The objective under this method is to fund all benefits under the Defined Benefit Plan in installments which are level as a percentage of payroll, starting at the original participation dates and continuing until assumed retirements, terminations, disabilities, or deaths. The Hospital's annual required contributions were determined as part of an actuarial valuation as of January 1, 2023.

For the years ended June 30, 2024 and 2023, the Hospital contributed \$0 and \$100,000, respectively, to the Defined Benefit Plan.

Net pension asset (liability) – The Hospital's net pension asset (NPA) (net pension liability (NPL)) was measured as of June 30, 2024, and the total pension liability used to calculate the NPA (NPL) was determined by an actuarial valuation as of January 1, 2024 and projected to June 30, 2024, assuming no actuarial gain or loss.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Actuarial methods and assumptions – Significant actuarial assumptions used in determining the NPA (NPL) and the Hospital's annual required contributions include the following:

1. Rate of return on the investment of present and future assets at 7.25% per year compounded annually,
2. Projected annual salary increases of 5.50%,
3. Projected increase in annual compensation limits of 3.00%,
4. Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection based on Scale MP-2021,
5. Turnover rates established by the V Select and Ultimate Table in the Employee Termination Study by Roger L. Vaughn, as printed in the 1992 edition of the Pension Forum, and
6. Assumed rates of retirement ranging from 2% at age 55 to 100% at age 65.

The Hospital developed the expected long-term rate of return on assets assumption as a weighted average rate based on the target asset allocation of the Defined Benefit Plan and long-term capital market assumptions. The overall return for each asset class was developed by combining a long-term inflation component and the associated expected real rates of return. The development of the capital market assumptions utilized a variety of methodologies, including, but not limited to, historical analysis, stock valuation models such as dividend discount models and earnings yield models, expected economic growth outlook, and market yield analysis. This analysis resulted in the selection of the 7.25% expected long-term rate of return on Defined Benefit Plan assets for the years ended June 30, 2024 and 2023.

The target asset allocation of the Defined Benefit Plan's assets as of June 30, 2024 and 2023 was as follows:

Asset category	
U.S. large equity	35%
U.S. fixed income	35%
International equity	19%
U.S. small equity	11%
Total	100%

The discount rate used to measure the total pension liability was 7.25% as of June 30, 2024 and 2023. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will be made at rates equal to the actuarially determined contribution rate. Based on that assumption, the Defined Benefit Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Changes in NPA (NPL) – The changes in the Hospital's NPA (NPL) for the year ended June 30, 2024 and 2023 were as follows:

	Total Pension Liability (a)	Defined Benefit Plan Fiduciary Net Position (b)	NPA (NPL) (b) - (a)
Balances as of June 30, 2022	\$ 60,755,728	\$ 51,844,843	\$ (8,910,885)
Service cost	160,069	-	(160,069)
Interest	4,235,536	-	(4,235,536)
Differences between expected and actual experience	38,990	-	(38,990)
Investment income, net	-	6,112,064	6,112,064
Employer contributions	-	100,000	100,000
Benefit payments	(5,078,069)	(5,078,069)	-
Net changes	(643,474)	1,133,995	1,777,469
Balances as of June 30, 2023	60,112,254	52,978,838	(7,133,416)
Service cost	163,205	-	(163,205)
Interest	4,187,563	-	(4,187,563)
Differences between expected and actual experience	(18,577)	-	18,577
Investment income, net	-	7,813,027	7,813,027
Employer contributions	-	-	-
Benefit payments	(5,121,558)	(5,121,558)	-
Net changes	(789,367)	2,691,469	3,480,836
Balances as of June 30, 2024	\$ 59,322,887	\$ 55,670,307	\$ (3,652,580)

The following presents the Hospital's NPL as of June 30, 2024 and 2023, calculated using the discount rate of 7.25%, as well as what the Hospital's NPL would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1.0% Decrease (6.25%)	Current Rate (7.25%)	1.0% Increase (8.25%)
2024			
Net Pension Liability	\$ 8,621,209	\$ 3,652,580	\$ 679,232
	1.0% Decrease (6.25%)	Current Rate (7.25%)	1.0% Increase (8.25%)
2023			
Net Pension Liability	\$ 12,282,529	\$ 7,133,416	\$ 2,654,236

Pension expense, deferred outflows of resources, and deferred inflows of resources – Pension expense related to the Defined Benefit Plan was approximately \$2,092,000 and \$2,800,000 for the years ended June 30, 2024 and 2023, respectively. Such amounts are classified in salaries and benefits in the accompanying statement of revenue, expenses, and changes in net position.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

As of June 30, 2024 and 2023, the Hospital recorded deferred outflows of resources and deferred inflows of resources related to the Defined Benefit Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2024		
Differences between expected and actual experience	\$ -	\$ 18,577
Net difference between projected and actual earnings on Defined Benefit Plan assets	<u>9,154,948</u>	<u>10,401,317</u>
Total	<u><u>\$ 9,154,948</u></u>	<u><u>\$ 10,419,894</u></u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
2023		
Differences between expected and actual experience	\$ 38,990	\$ -
Net difference between projected and actual earnings on Defined Benefit Plan assets	<u>13,147,357</u>	<u>8,863,049</u>
Total	<u><u>\$ 13,186,347</u></u>	<u><u>\$ 8,863,049</u></u>

Amounts reported as deferred outflows of resources and deferred inflows of resources as of June 30, 2024 will be recognized in future pension expense as follows:

	Deferred Outflows of Resources, net
Fiscal Years Ending June 30, 2025	\$ 1,944
2026	(631,099)
2027	1,516,311
2028	(1,318,132)
2029	<u>(833,970)</u>
Total deferred outflows of resources, net	<u><u>\$ (1,264,946)</u></u>

Note 10 – Defined Contribution Pension Plans

The Hospital also has a defined contribution pension plan (Bay Area Health District Defined Contribution Plan) (the Defined Contribution Plan), which is intended to qualify under section 401(a) of the Code. The Defined Contribution Plan is a single-employer plan administered by Principal Life Insurance Co. with oversight by the Hospital's CEO. The Board may amend or terminate the Defined Contribution Plan at any time. Charles Schwab is the trustee of the Defined Contribution Plan. The Defined Contribution Plan covers substantially all full-time employees who are not covered by a collective bargaining agreement – other than employees who are members of the Oregon Nurses Association (ONA) – and are not participating in the Defined Benefit Plan (see Note 9).

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

The Hospital is required to make a basic contribution to the Defined Contribution Plan of 4% of each eligible participant's compensation. In addition, for each participant with at least one year of service (generally 1,000 eligible hours, as defined by the Defined Contribution Plan) and who elects to make tax-deferred contributions to his or her tax sheltered annuity 403(b) account (403(b) account) or 457 deferred compensation account (457 account), the Hospital is required to make a 50% matching contribution to the Defined Contribution Plan up to a maximum matching contribution of 2% of the participant's compensation.

Participants are immediately vested in their own contributions to their 403(b) accounts or 457 accounts, in the Hospital's contributions to the Defined Contribution Plan, and in all related earnings or losses thereon.

Aggregate participant contributions to 403(b) and 457 accounts during the years ended June 30, 2024 and 2023 were approximately \$5,674,000 and \$4,846,000, respectively. The Hospital's contributions to the Defined Contribution Plan for the years ended June 30, 2024 and 2023 were approximately \$2,305,000 and \$2,014,000, respectively.

The Hospital also has deferred compensation plans for certain Hospital executives. The amounts charged to expense under these plans were approximately \$193,000 and \$200,000 for the years ended June 30, 2024 and 2023, respectively. As of June 30, 2024 and 2023, the liabilities related to these plans aggregated approximately \$446,000 and \$428,000, respectively, and are included in other noncurrent liabilities in the accompanying statement of net position.

Note 11 – Postemployment Health Care Plan

Plan description – The Bay Area Health District Health Plan (the Health Plan) is a single-employer defined benefit health care plan administered by the Hospital. The Health Plan provides medical, prescription drug, dental, and vision benefits and/or premium reimbursements to eligible retirees and dependents. The Health Plan may be amended by action of the Board. The Health Plan's actuary is Milliman, Inc. The Health Plan does not issue a separate stand-alone financial report. There are no assets accumulated in a trust for the benefit of the Health Plan.

Benefits provided – The contribution requirements of members of the Health Plan and the Hospital are established, and may be amended, by the Board. Early retirees (age 55 with at least five years of service) pay 100% of the Consolidated Omnibus Budget Reconciliation Act (COBRA) premium and may remain in the Health Plan until Medicare eligibility; there is no coverage for early retirees following Medicare eligibility. Other retirees (age 60 with at least twenty years of service) pay 100% of the COBRA premium prior to Medicare eligibility, or are paid up to \$500 per month for an outside policy of their choosing. After Medicare eligibility, the Hospital contributes a fixed dollar amount towards the selected American Association of Retired Persons (AARP) Medicare supplemental insurance for those age 60 with at least twenty years of service. No retiree benefits are paid subsequent to 5 years from the date of retirement. In addition, there are certain grandfathered retirees who have different contribution requirements.

Total Other Postemployment Benefits (OPEB) liability – As of June 30, 2024, the Hospital's total OPEB liability of approximately \$1,634,000 was measured as of June 30, 2023 and was determined by an actuarial valuation as of July 1, 2023 and is included in net pension liability. As of June 30, 2023, the Hospital's total OPEB liability of approximately \$1,639,000 was measured as of June 30, 2022 and was determined by an actuarial valuation as of July 1, 2022.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Employees covered by benefit terms – As of July 1, 2022 (the actuarial valuation date), the following employees were covered by the benefit terms:

Active employees	742
Retired members	<u>42</u>
Total participants	<u><u>784</u></u>

Actuarial methods and assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the Health Plan as understood by the Hospital and members of the Health Plan) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Hospital and members of the Health Plan to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial assumptions used in determining the OPEB liability as of June 30, 2024 and 2023 include the following:

1. Discount rate of 2.16%,
2. Projected annual salary increases of 3.50%,
3. Projected inflation of 2.50%,
4. Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection based on Scale MP-2019,
5. An initial annual health care cost trend rate of 6.75% for pre-65 medical costs, fluctuating to an ultimate rate of 3.75% in 2071. The dental and vision trend rate is 4.00% for all future years, and
6. Entry age normal cost method.

Changes in the total OPEB liability – The changes in the Hospital's total OPEB liability for the year ended June 30, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Balance, beginning of year	\$ 1,638,502	\$ 2,935,570
Service cost	116,824	233,156
Interest	59,164	65,792
Effect of economic/demographic gains or losses	-	(441,561)
Effect of assumption changes or inputs	(10,855)	(907,492)
Benefit payments	<u>(169,549)</u>	<u>(246,963)</u>
Net changes	<u>(4,416)</u>	<u>(1,297,068)</u>
Balance, end of year	<u><u>\$ 1,634,086</u></u>	<u><u>\$ 1,638,502</u></u>

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

The following presents the Hospital's OPEB liability as of June 30, 2024 and 2023, calculated using the discount rate of 3.65% and 3.54%, respectively, as well as what the Hospital's OPEB liability would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>1.0% Decrease (2.65%)</u>	<u>Current Rate (3.65%)</u>	<u>1.0% Increase (4.65%)</u>
2024			
Total OPEB liability	<u>\$ 1,735,836</u>	<u>\$ 1,634,086</u>	<u>\$ 1,540,639</u>
	<u>1.0% Decrease (2.54%)</u>	<u>Current Rate (3.54%)</u>	<u>1.0% Increase (4.54%)</u>
2023			
Total OPEB liability	<u>\$ 1,740,790</u>	<u>\$ 1,638,502</u>	<u>\$ 1,544,527</u>

The following presents the Hospital's OPEB liability as of June 30, 2024 and 2023, as well as what the Hospital's OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	<u>1.0% Decrease</u>	<u>Current Rate</u>	<u>1.0% Increase</u>
2024			
Total OPEB liability	<u>\$ 1,544,508</u>	<u>\$ 1,634,086</u>	<u>\$ 1,741,854</u>
	<u>1.0% Decrease</u>	<u>Current Rate</u>	<u>1.0% Increase</u>
2023			
Total OPEB liability	<u>\$ 1,548,204</u>	<u>\$ 1,638,502</u>	<u>\$ 1,741,854</u>

OPEB income, expense, deferred outflows of resources, and deferred inflows of resources –

OPEB expense related to the Health Plan was approximately \$255,000 and \$247,000 for the years ended June 30, 2024 and 2023, respectively. Such amounts are classified in salaries and benefits in the accompanying statement of revenue, expenses, and changes in net position.

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Notes to Financial Statements

As of June 30, 2024 and 2023, the Hospital recorded deferred outflows of resources and deferred inflows of resources related to the Health Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2024		
Differences between expected and actual experience	\$ (311,878)	\$ -
Changes of assumptions or inputs	(665,601)	162,056
Contributions made subsequent to measurement date	-	172,126
	<u> </u>	<u> </u>
Total	<u>\$ (977,479)</u>	<u>\$ 334,182</u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
2023		
Differences between expected and actual experience	\$ (394,076)	\$ -
Changes of assumptions or inputs	(898,777)	229,458
Contributions made subsequent to measurement date	-	169,549
	<u> </u>	<u> </u>
Total	<u>\$ (1,292,853)</u>	<u>\$ 399,007</u>

Amounts reported as deferred outflows related to contributions made subsequent to the measurement date will be recognized as a reduction of the total OPEB liability during the year ended June 30, 2024. All other amounts reported as deferred inflows and deferred outflows of resources as of June 30, 2024 will be recognized in future OPEB expense as follows:

Fiscal Years Ending June 30,	Deferred Outflows (Inflows) of Resources
	<u> </u>
2025	\$ (174,825)
2026	(149,958)
2027	(176,008)
2028	(208,350)
2029	(105,447)
Thereafter	(835)
	<u> </u>
Total deferred outflows of resources, net	<u>\$ (815,423)</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

Note 12 – Commitments and Contingencies

Significant contracts – In fiscal year 2021 the Hospital entered into a long-term agreement with St. Charles Health System to utilize their Electronic Health Records (EHR) system, EPIC, through a community connect model. The Hospital agreed to pay maintenance and support costs through fiscal year 2028.

As of June 30, 2024, future maintenance and support costs under the contracts for the EHR System were expected to be approximately as follows:

Fiscal Years Ending June 30,	<u>Amount</u>
2025	\$ 3,387,000
2026	3,387,000
2027	<u>3,387,000</u>
Total	<u><u>\$ 10,161,000</u></u>

Medical malpractice insurance – The Hospital purchases insurance through UMIA Insurance Company, Inc. (UMIA), now operating as Curi. The Hospital is responsible for the first \$25,000 of indemnity payments related to each of its medical malpractice claims, UMIA is responsible for any amounts from \$25,001 to \$1,000,000 per claim and \$3,000,000 in aggregate. Excess coverage is provided by UMIA in the amount of \$10,000,000. The insurance policies under these arrangements are on a claims-made basis. Under these policies, medical malpractice claims reported during the policy period are covered; however, any medical malpractice claim that has been incurred but not reported (IBNR) to the insurance companies during the policy period is not covered.

Based on an actuarial valuation, the Hospital has recorded an estimated liability for IBNR medical malpractice claims, which, along with an estimated liability for reported claims, aggregated to approximately \$931,000 and \$1,026,000 as of June 30, 2024 and 2023, respectively, and is included in other noncurrent liabilities in the accompanying statement of net position (see Note 6). Management believes that this estimated liability is adequate; however, the establishment of estimated liabilities 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.

Collective bargaining agreement – As of June 30, 2024 and 2023, approximately 52% and 50%, respectively, of the Hospital's employees are covered under a collective bargaining agreement (CBA) with the United Food and Commercial Workers Union (UFCW), which expires on June 30, 2025. In addition, as of June 30, 2024 and 2023, approximately 31% of the Hospital's employees are covered under a CBA with the Oregon Nurses Association (ONA), which expired on June 30, 2024. A new CBA through June 30, 2026, has been agreed to with the ONA and was ratified on July 24, 2024.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

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 financial position or results of operations.

Note 13 – Other Related Parties

The Hospital is a member of Western Oregon Advanced Health, LLC, dba Advanced Health, a limited liability company which was formed to operate as a coordinated care organization in Oregon and whose members consist of various Oregon health care organizations. The Hospital's investment in Advanced Health represents an approximate 5% ownership interest and is not significant to the accompanying financial statements. The Hospital's CEO is on the governing Board of Advanced Health. Under terms of a contract with Advanced Health, the Hospital provides health care services to certain OHP patients (for whom Advanced Health has agreed with OHP to provide health care services) on both a capitated and non-capitated basis. During the years ended June 30, 2024 and 2023, the Hospital received approximately \$1,849,000 and \$21,495,000, respectively, and \$16,588,000 and \$19,904,000 in capitated and non-capitated payments, respectively, from Advanced Health for the provision of health care services to such OHP patients. The Hospital no longer has a capitated contract with Advanced Health.

Note 14 – 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: Level 1 provides the most reliable measure of fair value, whereas Level 3, 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;

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

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.

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 observable inputs and minimize the use of unobservable inputs.

The Hospital's assets measured at fair value consist of certain investments. The following is a description of the valuation methodologies used for the Hospital's assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2024 and 2023.

Mortgage-backed securities, U.S. government agency obligations, corporate obligations, and municipal bonds – The fair value of these securities is determined through reference to prices for identical or similar securities or through model-based techniques (which may consider credit information, observed market information such as market yields, and other factors) in which all significant inputs are observable.

U.S. Treasury securities – The fair value of U.S. Treasury securities is determined by obtaining daily market information from dealers and inter-dealer brokers.

Bay Area Health District, dba Bay Area Hospital

Notes to Financial Statements

As of June 30, 2024 and 2023, the Hospital's assets measured at fair value on a recurring basis consisted of the following:

June 30, 2024				
	Level 1	Level 2	Level 3	Total
Assets limited to use				
Mortgage-backed securities	\$ -	\$ 13,660,996	\$ -	\$ 13,660,996
U.S. Government agency obligations	-	1,533,927	-	1,533,927
Corporate obligations	-	4,150,135	-	4,150,135
U.S. Treasury securities	17,225,764	-	-	17,225,764
	<u>\$ 17,225,764</u>	<u>\$ 19,345,058</u>	<u>\$ -</u>	<u>\$ 36,570,822</u>
Total				
	<u>\$ 17,225,764</u>	<u>\$ 19,345,058</u>	<u>\$ -</u>	<u>\$ 36,570,822</u>
June 30, 2023				
	Level 1	Level 2	Level 3	Total
Assets limited to use				
Mortgage-backed securities	\$ -	\$ 25,956,101	\$ -	\$ 25,956,101
U.S. Government agency obligations	-	1,506,600	-	1,506,600
Corporate obligations	-	5,782,355	-	5,782,355
U.S. Treasury securities	16,925,975	-	-	16,925,975
Municipal bonds	-	544,677	-	544,677
	<u>\$ 16,925,975</u>	<u>\$ 33,789,733</u>	<u>\$ -</u>	<u>\$ 50,715,708</u>
Total				
	<u>\$ 16,925,975</u>	<u>\$ 33,789,733</u>	<u>\$ -</u>	<u>\$ 50,715,708</u>

The methods above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Management believes that the valuation methods used by the Hospital are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements as of the reporting date.

Supplementary Information

Bay Area Health District, dba Bay Area Hospital
Schedule of Changes in Net Position (Liability) and
Related Ratios for the Defined Benefit Plan
Years Ended June 30, 2024 and 2023

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability										
Service cost	\$ 163,205	\$ 160,069	\$ 210,246	\$ 219,835	\$ 238,232	\$ 277,011	\$ 325,971	\$ 372,678	\$ 437,324	\$ 567,015
Interest	4,187,563	4,235,536	4,262,919	4,218,180	4,320,286	4,284,358	4,211,265	4,166,510	4,071,078	3,763,386
Differences between expected and actual experience	(18,577)	38,990	65,365	18,479	(102,579)	351,926	(745,305)	(113,088)	300,510	1,349,078
Change of assumptions	-	-	129,945	999,659	811,844	-	1,295,479	-	-	1,710,973
Benefit payments	(5,121,558)	(5,078,069)	(4,916,756)	(4,745,183)	(4,597,527)	(4,200,618)	(3,931,982)	(3,638,654)	(3,310,934)	(3,010,897)
Change in total pension liability – net	(789,367)	(643,474)	(248,281)	710,970	670,256	712,677	1,155,428	787,446	1,497,978	4,379,555
Total pension liability – beginning of year	60,112,254	60,755,728	61,004,009	60,293,039	59,622,783	58,910,106	57,754,678	56,967,232	55,469,254	51,089,699
Total pension liability – end of year (a)	<u>\$ 59,322,887</u>	<u>\$ 60,112,254</u>	<u>\$ 60,755,728</u>	<u>\$ 61,004,009</u>	<u>\$ 60,293,039</u>	<u>\$ 59,622,783</u>	<u>\$ 58,910,106</u>	<u>\$ 57,754,678</u>	<u>\$ 56,967,232</u>	<u>\$ 55,469,254</u>
Defined Benefit Plan Fiduciary Net Position										
Investment income (loss) - net	\$ 7,813,027	\$ 6,112,064	\$ (9,415,600)	\$ 14,718,659	\$ 970,143	\$ 1,844,223	\$ 4,536,281	\$ 7,035,514	\$ 180,733	\$ 1,476,289
Employer contributions	-	100,000	350,000	411,818	582,273	425,000	500,200	919,800	690,000	-
Benefit payments	(5,121,558)	(5,078,069)	(4,916,756)	(4,745,183)	(4,597,527)	(4,200,618)	(3,931,982)	(3,638,654)	(3,310,934)	(3,010,897)
Change in Defined Benefit Plan fiduciary net position – net	2,691,469	1,133,995	(13,982,356)	10,385,294	(3,045,111)	(1,931,395)	1,104,499	4,316,660	(2,440,201)	(1,534,608)
Defined Benefit Plan fiduciary net position – beginning of year	52,978,838	51,844,843	65,827,199	55,441,905	58,487,016	60,418,411	59,313,912	54,997,252	57,437,453	58,972,061
Defined Benefit Plan fiduciary net position – end of year (b)	<u>\$ 55,670,307</u>	<u>\$ 52,978,838</u>	<u>\$ 51,844,843</u>	<u>\$ 65,827,199</u>	<u>\$ 55,441,905</u>	<u>\$ 58,487,016</u>	<u>\$ 60,418,411</u>	<u>\$ 59,313,912</u>	<u>\$ 54,997,252</u>	<u>\$ 57,437,453</u>
Net pension asset (liability) – end of year (b) – (a)	<u>\$ (3,652,580)</u>	<u>\$ (7,133,416)</u>	<u>\$ 8,910,885</u>	<u>\$ 4,823,190</u>	<u>\$ (4,851,134)</u>	<u>\$ (1,135,767)</u>	<u>\$ 1,508,305</u>	<u>\$ 1,559,234</u>	<u>\$ (1,969,980)</u>	<u>\$ 1,968,199</u>
Defined Benefit Plan fiduciary net position as a percentage of the total pension liability	93.84%	88.13%	85.33%	107.91%	91.95%	98.10%	102.56%	102.70%	96.54%	103.55%
Covered payroll	<u>\$ 2,965,269</u>	<u>\$ 2,849,647</u>	<u>\$ 2,866,617</u>	<u>\$ 3,474,647</u>	<u>\$ 3,982,471</u>	<u>\$ 4,448,511</u>	<u>\$ 5,010,047</u>	<u>\$ 5,918,890</u>	<u>\$ 6,919,373</u>	<u>\$ 7,999,679</u>
Net pension asset (liability) as a percentage of covered payroll	<u>(123.18%)</u>	<u>(250.33%)</u>	<u>(310.85%)</u>	<u>138.81%</u>	<u>(121.81%)</u>	<u>(25.53%)</u>	<u>30.11%</u>	<u>26.34%</u>	<u>(28.47%)</u>	<u>24.60%</u>

Bay Area Health District, dba Bay Area Hospital **Schedule of Contributions to the Defined Benefit Plan** **Years Ended June 30, 2024 and 2023**

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ 20,165	\$ 218,821	\$ 1,036,821	\$ -	\$ 481,063	\$ 1,409,170	\$ -
Contribution in relation to the actuarially determined contribution	-	100,000	350,000	411,818	582,273	425,000	500,200	919,800	690,000	-
Contribution deficiency (excess)	\$ -	\$ (100,000)	\$ (350,000)	\$ (391,653)	\$ (363,452)	\$ 611,821	\$ (500,200)	\$ (438,737)	\$ 719,170	\$ -
Covered payroll	\$ 2,965,269	\$ 2,849,647	\$ 2,866,617	\$ 3,474,647	\$ 3,982,471	\$ 4,448,511	\$ 5,010,047	\$ 5,918,890	\$ 6,919,373	\$ 7,999,679
Contribution as a percentage of covered payroll	0.00%	3.51%	12.21%	11.85%	14.62%	9.55%	9.98%	15.54%	9.97%	0.00%

Methods and significant actuarial assumptions used in determining the net pension asset (liability) and the Hospital's annual required contribution include the following:

Actuarial cost method is individual entry age normal

Rate of return on investments	7.25%	7.25%	7.50%	7.25%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Projected annual salary increases	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
Projected increase in annual compensation limits	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection using Scale MP-2021 for 2023 and 2022
Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection using Scale MP-2020 for 2021
Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection using Scale MP-2019 for 2020
Mortality using the RP2000 Mortality Table with fully generational projection using Scale BB for 2019 and 2018
Mortality using the RP2000 Mortality Table projected to 2020 using Scale BB for 2017, 2016, 2015, and 2014

Turnover rates established by the *V Select and Ultimate Table* in the Employee Termination Study by Roger L. Vaughn, as printed in the 1992 edition of the Pension Forum

Assumed rates of retirement ranging from 2% at age 55 to 100% at age 65

Bay Area Health District, dba Bay Area Hospital
Schedule of Changes in Total OPEB Liability and
Related Ratios for the Health Plan
Year Ended June 30, 2024 and 2023

	2024	2023	2022	2021	2020	2019	2018
Total OPEB Liability							
Service cost	\$ 116,824	\$ 233,156	\$ 226,797	\$ 149,988	\$ 123,716	\$ 176,673	\$ 186,776
Interest	59,164	65,792	65,741	89,222	116,285	133,672	114,192
Effect of changes to benefit terms	-	-	-	-	(529,927)	-	-
Effect of economic/demographic gains or losses	-	(441,561)	-	(5,462)	-	(84,659)	-
Effect of assumption changes or inputs	(10,855)	(907,492)	9,524	354,849	78,042	(591,150)	(187,156)
Benefit payments	(169,549)	(246,963)	(227,538)	(251,341)	(288,054)	(333,026)	(423,119)
Change in total OPEB liability – net	(4,416)	(1,297,068)	74,524	337,256	(499,938)	(698,490)	(309,307)
Total OPEB liability – beginning of the year	<u>\$ 1,638,502</u>	<u>\$ 2,935,570</u>	<u>\$ 2,861,046</u>	<u>\$ 1,325,362</u>	<u>\$ 3,023,728</u>	<u>\$ 3,722,218</u>	<u>\$ 4,031,525</u>
Total OPEB liability – end of the year	<u>1,634,086</u>	<u>1,638,502</u>	<u>2,935,570</u>	<u>1,662,618</u>	<u>2,523,790</u>	<u>3,023,728</u>	<u>3,722,218</u>
Covered payroll	<u>\$ 56,118,959</u>	<u>\$ 51,774,763</u>	<u>\$ 51,100,219</u>	<u>\$ 49,929,679</u>	<u>\$ 47,851,625</u>	<u>\$ 48,252,462</u>	<u>\$ 45,033,885</u>
Total OPEB liability as a percentage of covered payroll	<u>2.91%</u>	<u>3.16%</u>	<u>5.74%</u>	<u>3.33%</u>	<u>5.27%</u>	<u>6.27%</u>	<u>5.27%</u>

Notes to Schedule of Changes in Total OPEB Liability and Related Ratios
for the Health Plan

Changes in benefit terms:

The effect of changes to benefit terms reflects the net impact of the addition of certain employees subject to a collective bargaining agreement as covered employees under the Health Plan during the year ended June 30, 2021 offset by the modification of benefits for certain other covered employees during the year ended June 30, 2021.

Changes in assumptions:

Effect of assumption changes or inputs reflects the changes in the discount rate and salary increases each period. As of June 30, 2024, 2023, 2022, 2021, 2020, 2019, and 2018, the discount rates were 3.65%, 3.54%, 2.16%, 2.21%, 3.50%, 3.87%, and 3.58% respectively. As of June 30, 2024, 2023, 2022, 2021, 2020, 2019, and 2018, the annual pay increases used 3.5%, 3.50%, 3.50%, 3.50%, 3.50%, 3.50%, and 4.50%, respectively.

Bay Area Health District, dba Bay Area Hospital
Schedule of Revenue, Expenditures, and Changes in Net Position – Budget and
Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2024

	Original/ Final Budget	Actual	Variance
Operating revenue			
Net patient service revenue	\$ 231,103,316	\$ 240,383,933	\$ 9,280,617
Other revenue	1,520,628	3,616,009	2,095,381
Total operating revenue	232,623,944	243,999,942	11,375,998
Expenditures			
Personal services	135,014,235	113,877,798	(21,136,437)
Materials and services	86,144,225	125,166,186	39,021,961
Capital outlay	6,963,126	3,018,667	(3,944,459)
Debt service	2,643,610	2,559,519	(84,091)
Contingencies	1,000,000	-	(1,000,000)
Total expenditures	231,765,196	244,622,170	12,856,974
Operating loss	858,748	(622,228)	(1,480,976)
Nonoperating revenue (expense)			
Investment loss, net	-	1,702,252	1,702,252
Government stimulus income	-	1,084,554	1,084,554
Noncapital contributions	-	1,292,954	1,292,954
Gain on sale of capital assets	-	100,000	100,000
Interest expense	(2,400,000)	(2,412,570)	(12,570)
Other	600,000	-	(600,000)
Total nonoperating revenue – net	(1,800,000)	1,767,190	3,567,190
Income (Loss) Before Capital Contributions	(941,252)	1,144,962	2,086,214
Difference between GAAP and budgetary basis, net	(1,270,264)	(6,105,369)	(4,835,105)
Increase (Decrease) in Net Position	(2,211,516)	(4,960,407)	(2,748,891)
Net Position – June 30, 2023	93,761,141	93,761,141	-
Net Position – June 30, 2024	\$ 91,549,625	\$ 88,800,734	\$ (2,748,891)

Report of Independent Auditors Required by Oregon State Regulations

The Board of Directors
Bay Area Hospital District, dba Bay Area Hospital

We have audited, in accordance with auditing standards generally accepted in the United States of America the financial statements of Bay Area Hospital (the Hospital) as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise Bay Area Hospital's basic financial statements, and have issued our report thereon dated September 24, 2024.

Compliance

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

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to, the following:

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

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bay Area 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bay Area Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of Bay Area 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 have not been identified.

Purpose of this Report

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

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



Tony Andrade, Partner for
Moss Adams LLP
Portland, Oregon
September 24, 2024



Reports of Independent Auditors and
Financial Statements

**Bay Area Health District,
dba Bay Area Hospital**

June 30, 2025 and 2024

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Report of Independent Auditors

The Board of Directors
Bay Area Hospital District, dba Bay Area Hospital

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bay Area Hospital District, dba Bay Area Hospital (the Hospital), as of and for the years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Bay Area Hospital District, dba Bay Area Hospital, as of June 30, 2025 and 2024, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 opinions.

Substantial Doubt About the Entity's Ability to Continue as a Going Concern

We draw attention to Note 2 to the financial statements, which discloses that the Hospital has not complied with certain debt covenants, resulting in the classification of all outstanding debt as current due to the lender's decision not to grant a waiver. As further discussed in Note 2, the Hospital does not have sufficient cash resources to meet these obligations as they become due. These conditions raise substantial doubt about the Hospital's ability to continue as a going concern. Management's plans to address these matters are also described in Note 2. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 12 as well as Schedules of Changes in Net Pension Asset (Liability) and Related Ratios for the Defined Benefit Plan, Contributions to the Defined Benefit Plan, and Changes in Total OPEB Liability and Related Ratios for the Defined Benefit Plan on pages 56 through 59 to be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Bay Area Hospital District's basic financial statements. The Schedule of Revenue, Expenditures, and Changes in Net Position – Budget and Actual (Non-GAAP Budgetary Basis), as required by Oregon State Regulations, is not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of adopted appropriations and expenditures, original and final budget and actual, the consolidating statement of net position is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated January 15, 2026, on our consideration of Bay Area Hospital District's compliance with certain provisions of laws and regulations including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of Bay Area Hospital District's internal control over financial reporting or on compliance.



Tony Andrade, Principal,
for Baker Tilly US, LLP
Portland, Oregon
January 15, 2026

Management's Discussion and Analysis

**Bay Area Health District,
dba Bay Area Hospital
Management's Discussion and Analysis
Years Ended June 30, 2025 and 2024**

Management's discussion and analysis of Bay Area Health District's, dba Bay Area Hospital's (the Hospital's), financial performance provides an overview of the Hospital's financial activities for the years ended June 30, 2025 (fiscal year 2025) and June 30, 2024 (fiscal year 2024"). Please read it in conjunction with the Hospital's financial statements, which begin on page 13.

Financial Highlights

- The Hospital's net position was \$63.7 million and \$88.8 million as of June 30, 2025 and 2024, respectively, a decrease of \$25.1 reflecting net loss for fiscal year 2025.
- Gross patient service revenue of \$739.7 million in fiscal year 2025 was lower than budget by \$22.3 million (3.0%) and more than fiscal year 2024 by \$25.5 million (3.6%). Net patient service revenue of \$235.5 million in fiscal year 2025 was lower than budget by \$27.6 million (10.6%) and lower than fiscal year 2024 by \$4.9 million (2.0%). Contributing factors to fiscal year 2025's underperformance against budget and the prior year include an increase in charity care and bad debt allowances of \$2.3 million year over year
- Operating expenses were \$265.2 million (110.4% of total operating revenue) and \$250.1 million (102.7% of total operating revenue) for fiscal years 2025 and 2024, respectively.
- The Hospital reported operating losses of \$25.0 million and \$6.7 million for fiscal years 2025 and 2024, respectively.
- Total net nonoperating revenue (expense) was (\$0.1) million and \$1.7 million for fiscal years 2025 and 2024, respectively. The largest components of nonoperating revenue and expense are interest income from investments and interest expense on term debt. During fiscal year 2025 strong investment returns resulted in interest income of \$2.2 million, up \$0.5 million from fiscal 2024. Interest expense of \$2.4 million offset these gains and reflects increases in bank interest charges on term debt due to the Hospital remaining out of compliance with its financial covenants through fiscal year 2025.

Using this annual report – The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenue, Expenses and Changes in Net Position, and a Statement of Cash Flows. These financial statements and related notes provide information about the financial activities of the Hospital. The Hospital is the trustee, or fiduciary, for a defined benefit employee pension plan. The Hospital is responsible for the assets of this pension plan which - because of a trust arrangement - can be used only for the trust beneficiaries. All of the Hospital's fiduciary activities (which are solely related to this pension plan) are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 20 and 21. These activities are excluded from the Hospital's other financial statements, because the Hospital cannot use these assets to finance its operations. The Hospital is responsible for ensuring that the assets reported in this fiduciary fund are used for their intended purposes.

**Bay Area Health District,
dba Bay Area Hospital
Management's Discussion and Analysis
Years Ended June 30, 2025 and 2024**

The Statement of Net Position and Statement of Revenue, Expenses and Changes in Net Position

– The Statement of Net Position and the Statement of Revenue, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps the user decide if the Hospital as a whole is better or worse off as a result of the year's activities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in net position from the prior year. You can think of the Hospital's net position - the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service that it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

The Statement of Cash Flows – This statement reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operating activities, noncapital financing activities (if applicable), capital and related financing activities, and investing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?" and "What was the change in the cash balance during the reporting period?"

The Hospital's net position – Hospital's net position is the difference between (1) its assets plus deferred outflows of resources and (2) its liabilities plus deferred inflows of resources, as reported in the Statement of Net Position on pages 15 and 16. The Hospital's net position decreased by approximately \$25.1 million (28.3%) in fiscal year 2025, as you can see from Tables 1 and 2 below.

**Bay Area Health District,
dba Bay Area Hospital
Management's Discussion and Analysis
Years Ended June 30, 2025 and 2024**

Table 1: Assets, liabilities, and net position

		June 30,	
	2025	2024	2023
Assets			
Current assets	\$ 67,595,789	\$ 63,176,059	\$ 41,687,411
Assets limited as to use, net of current portion	13,273,806	36,570,822	53,401,226
Total capital assets, net	67,526,250	80,104,701	88,012,583
Other noncurrent assets	820,452	684,051	1,096,420
Total assets	149,216,297	180,535,633	184,197,640
Deferred outflows of resources	6,005,032	9,489,130	13,585,354
Total assets and deferred outflows of resources	155,221,329	190,024,763	197,782,994
Liabilities			
Long-term obligations, net of current portion	1,991,750	49,503,479	51,946,347
Long-term debt in default classified as current	45,065,869	-	-
Other current and noncurrent liabilities	33,964,100	40,323,177	41,919,604
Total liabilities	81,021,719	89,826,656	93,865,951
Deferred inflows of resources	10,542,073	11,397,373	10,155,902
Total liabilities and deferred inflows of resources	91,563,792	101,224,029	104,021,853
Net position			
Net investment in capital assets	19,536,274	27,049,940	32,520,549
Unrestricted	44,121,263	61,750,794	61,240,592
Total net position	\$ 63,657,537	\$ 88,800,734	\$ 93,761,141

Total assets and deferred outflows of resources decreased approximately \$34.8 million and \$7.7 million for the years ending June 30, 2025 and 2024, respectively. The decrease in current assets and assets limited to use was primarily due to the continued operating losses. Decreases in capital assets and right-of-use assets reflect pauses on capital investment and depreciation of existing assets. The decrease in the deferred outflows of resources related to the activity of the Hospital's defined benefit retirement plan (see Note 9 to the accompanying financial statements).

The Hospital's total long-term debt obligations (including current and non-current portions) decreased from \$46.6 million as of June 30, 2024 to \$45.0 million as of June 30, 2025 and decreased from \$47.9 million as of June 30, 2023 to \$46.6 million as of June 30, 2024.

Operating results and changes in the Hospital's net position – In fiscal years 2025 and 2024, the Hospital's net position decreased by \$25.1 million (28.3%) and \$5.0 million (5.3%), as shown in Table 2 below. Key drivers of the net loss are discussed under the operating loss section of this report.

**Bay Area Health District,
dba Bay Area Hospital
Management's Discussion and Analysis
Years Ended June 30, 2025 and 2024**

Table 2: Operating results and changes in net position

	2025	June 30, 2024	2023
Operating revenue			
Net patient service revenue	\$ 235,536,371	\$ 240,383,933	\$ 205,096,629
Other revenue	4,639,631	3,616,009	2,516,598
Total operating revenue	<u>\$ 240,176,002</u>	<u>\$ 243,999,942</u>	<u>\$ 207,613,227</u>
Operating expenses			
Salaries and benefits	\$ 124,567,982	\$ 113,877,798	\$ 108,244,634
Supplies and other	64,005,049	62,967,578	57,294,342
Professional fees and purchased services	66,411,143	62,198,608	62,823,354
Depreciation and amortization	10,217,821	11,683,555	12,062,291
Total operating expenses	<u>265,201,995</u>	<u>250,727,539</u>	<u>240,424,621</u>
Operating loss	<u>(25,025,993)</u>	<u>(6,727,597)</u>	<u>(32,811,394)</u>
Nonoperating revenue (expenses)			
Investment loss, net	2,224,152	1,702,252	(1,091,923)
Government stimulus income	-	1,084,554	-
Noncapital contributions	1,301,122	1,292,954	1,340,012
Gain on sale of capital assets	(1,287,915)	100,000	-
Interest Expense	(2,354,563)	(2,412,570)	(2,535,808)
Total nonoperating revenue, net	<u>(117,204)</u>	<u>1,767,190</u>	<u>(2,287,719)</u>
Increase (decrease) in net position	(25,143,197)	(4,960,407)	(35,099,113)
Net position, beginning of year	<u>88,800,734</u>	<u>93,761,141</u>	<u>128,860,254</u>
Net position, ending of year	<u>\$ 63,657,537</u>	<u>\$ 88,800,734</u>	<u>\$ 93,761,141</u>

Operating loss – Operating loss was \$25.0 million (\$26.6 million unfavorable to budget) and \$6.7 (\$6.3 million unfavorable to budget) in fiscal years 2025 and 2024.

The main drivers of the operating loss versus budget for 2025 and 2024 are:

- Total operating revenue decreased by \$3.8 million in fiscal year 2025 and increased by \$36.6 million in fiscal year 2024.

**Bay Area Health District,
dba Bay Area Hospital
Management's Discussion and Analysis
Years Ended June 30, 2025 and 2024**

- Salaries and benefits increased by \$10.7 million in fiscal year 2025 and increased by \$5.6 million in fiscal year 2024. In 2025, salaries and benefits was up 11.1% on a common-size basis as a percent of total operating revenue. Salaries and benefits does not include costs of contract labor, such as locums tenens physicians, agency nurses and technicians, and other contract roles. These costs were \$20.8 million and \$23.8 million for fiscal year 2025, respectively. The Hospital defines "compensation costs percentage" as the fraction with salaries and benefits plus contract labor as the numerator, and net patient service revenues less supplemental payments related to the Oregon provider tax as the denominator. The compensation costs percentage increased to 65.3% in fiscal year 2025 from 60.5% in fiscal year 2024.
- The Hospital currently has three unions with whom it negotiates. As of June 30, 2025, approximately 51% of the Hospital's employees are covered under a collective bargaining agreement (CBA) with the UFCW, on a contract expiring June 30, 2025. Approximately 30% of the Hospital's employees are covered under a CBA with the Oregon Nurses Association (ONA), which expires on June 30, 2022 and was renewed through September 30, 2026. The teams subsequently extended both agreements. Approximately 2% of the Hospital's employees are covered under a CBA with the Teamsters.
- Supplies and other expenses increased \$1.0 million to \$64.0 million in fiscal year 2025 from \$63.0 million in fiscal year 2024, which was an increase of \$5.6 million in fiscal year 2024.
- Professional fees and purchased services expense increased \$4.2 million to \$66.4 million in fiscal year 2025. Contract labor costs included in professional fees and purchased services decreased \$3.0 million during fiscal year 2025 compared to fiscal year 2024, which was offset by \$7.2 million in consulting and outsourcing fees related to an unconsummated sale transaction with a third party hospital operator. This transaction was subsequently abandoned. In fiscal year 2024, professional fees and purchased services expense decreased \$0.6 million to \$62.2 million.
- Depreciation and amortization expense decreased by \$1.5 million to \$10.2 million in fiscal year 2025 compared to \$11.7 million in fiscal year 2024, which was a decrease of \$0.4 million from fiscal year 2023.

**Bay Area Health District,
dba Bay Area Hospital
Management's Discussion and Analysis
Years Ended June 30, 2025 and 2024**

The Hospital often provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Hospital when the current facility was built. When patients meet the Hospital's established charity guidelines, all or part of their bill is written off. In fiscal years 2025 and 2024, the amount of charity care (at gross charges) was approximately \$7.5 million and \$2.2 million, respectively. Because there is no expectation of repayment, charity care is not reported as net patient service revenue of the Hospital. There are specific guidelines used to apply for charity care; however, many patients who would qualify for charity care do not take the time to apply, so they cannot be included in charity allowances according to State and Federal regulations. The Hospital continues to encourage these individuals to apply for charity care and will continue to assist such individuals in the process, as necessary. New legislation passed in calendar year 2024 now requires hospitals in Oregon to presumptively screen patients for charity care. The impact of this legislation is reflected in the \$5.3 million increase seen in fiscal year 2025. In addition, the Hospital's provision for bad debts was \$2.5 million and \$5.5 million in fiscal years 2025 and 2024, respectively.

In addition to the charity care provided and bad debt write-offs, the Hospital provides care to government sponsored programs such as Medicare, Medicare Advantage, Medicaid, and the Oregon Health Plan, where a large discount from billed charges is mandated. In many cases, the payment received is less than the actual cost of treatment. The aggregate amount of these contractual deductions in fiscal years 2025 and 2024, was approximately \$424.7 million and \$403.3 million, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, other governmental entities, health maintenance organizations, and preferred provider organizations to provide medical services to subscribing participants. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates based on the type of service delivered, all of which are generally less than the Hospital's billed charges. The aggregate amount of these other contractual deductions in fiscal years 2025 and 2024 was approximately \$69.5 million and \$62.9 million, respectively.

Nonoperating Revenue and Expenses – Nonoperating revenue and expenses generally consist of interest income, realized and unrealized gains and losses on investments, contributions, and interest expense. The investment income relates to long-term investments which may only be invested in allowable fixed-income investments pursuant to State regulations. The net investment gain was \$2.2 million and \$1.7 million in fiscal years 2025 and 2024, respectively.

Noncapital contributions include nonoperating revenues related to the Kids Hope Center, an all-inclusive center for child abuse where forensic child interviews and medical examinations are conducted, and Bright Beginnings Learning Center, a community daycare and early learning center. Such contributions totaled \$1.3 million and \$1.3 million in fiscal years 2025 and 2024, respectively.

Interest expense was \$2.4 million and \$2.4 million in fiscal years 2025 and 2024, respectively.

The Hospital does not receive any tax revenue from the district.

**Bay Area Health District,
dba Bay Area Hospital
Management's Discussion and Analysis
Years Ended June 30, 2025 and 2024**

The Hospital filed for Employee Retention Credit (ERC) in fiscal year 2024 as it was determined that the Hospital qualified for the 1st quarter of 2021. The \$1.1 million credit was recognized as government stimulus income in fiscal year 2024.

The Hospital's cash flows – Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenue and expenses, as discussed earlier. The largest cash outflows each year are typically the payments to suppliers and contractors, which totaled approximately \$131.5 million and \$123.2 million in fiscal years 2025 and 2024, respectively, and payments to employees, which totaled approximately \$ 125 million and \$110.1 million in fiscal years 2025 and 2024, respectively. In the aggregate, the Hospital had a negative cash flow from operations of approximately \$12.7 million.

Capital assets – As of June 30, 2025 and 2024, the Hospital had approximately \$64.5 million and 70.6 million invested in capital assets, net of accumulated depreciation and amortization, respectively, as detailed in Note 5 to the financial statements. In fiscal years 2025 and 2024, the Hospital purchased or constructed new equipment and capital improvements costing approximately \$3.6 million and \$3.2 million, respectively. In addition, the Hospital capitalized various lease contracts with a net balance of approximately \$1.4 million as of June 30, 2025. Furthermore, capital assets at June 30, 2025, include approximately \$1.6 million of subscription-based information technology arrangements (SBITA).

Long-term debt – As of June 30, 2025 and 2024, the Hospital had \$47.1 and \$49.5 million in long-term obligations outstanding, respectively. Long-term obligations outstanding as of June 30, 2025 consist of approximately \$45.1 million in borrowings under a term loan owed to the Bank of the West (BOTW). (Note that Bank of the West was subsequently acquired by BMO Bank).

In December 2020, the Hospital entered into a \$50.0 million term loan agreement (the Note Payable) with BOTW. The proceeds of the Note Payable were used to help finance the new EPIC system and a new human resources and financial system and to repay the Hospital's pre-existing debt to Umpqua Bank. Under terms of the Note Payable, the Hospital was required to make interest-only payments in monthly installments of approximately \$100,000 through January 2022. Beginning in February 2022, the Hospital was required to make payments in monthly installments of principal and interest of approximately \$220,000, with any remaining outstanding principal and accrued interest due in December 2030.

The debt was modified in April 2023, after defaulting on the bank covenant ratios. The initial interest rate on the Note Payable was 2.34%, and the rate is adjusted quarterly based on the Hospital's most recent debt service coverage ratio for the twelve-month period then ended. The quarterly interest rates under terms of the Note Payable range from 4.00 to 5.00%, unless the Hospital is in default (see below) under terms of the Note Payable, in which case, interest is payable at a default rate. The default rate is a variable rate of interest equal to the greater of (1) BOTW's prime interest rate plus 3.00% (2) the Federal Funds Rate plus 5.50% (13% at June 30, 2025), unless BOTW provides the Hospital with a forbearance period. The Note Payable is secured by a pledge of the Hospital's revenues and substantially all assets. Outstanding borrowings under the Note Payable as of June 30, 2025 and 2024 were \$45.1 million and \$46.6 million, respectively. The Note Payable may be prepaid in whole or in part, with a prepayment penalty. The Note Payable includes requirements to meet certain financial and operating covenants.

**Bay Area Health District,
dba Bay Area Hospital
Management's Discussion and Analysis
Years Ended June 30, 2025 and 2024**

In the event of a default by the Hospital - such as failing to make payments on the Note Payable as they are due or failing to comply with the required financial and operating covenants (including a "Debt Service Coverage" (DSC) covenant) - all amounts due under the Note Payable may, at BOTW's discretion, become immediately due and payable by the Hospital. At June 30, 2025 the balance is presented in current liabilities because the Hospital is not in compliance with the financial covenants.

Other economic factors – The Hospital is Coos County's largest employer, followed by The Mill Casino, the local school districts, and Southwestern Oregon Community College. In recent years, the area has experienced significant growth in the retiree population moving to the coast from California and other states, and tourism is growing as an important contributor to the local economy. The South Coast Development Council (the SCDC) was started in 2001 to help attract industry and business to the Southern Oregon Coast. The unemployment rate in Coos County was 5.9% in September 2025. The pre-pandemic rate was 3.8% in November 2019. In June 2023, the Oregon International Port of Coos Bay obtained \$40 million from the Oregon Legislature to dredge and expand the existing waterway to accommodate large container ships. In June 2025 that funding commitment increased to \$100 million. The Hospital continues to closely monitor external forces that affect the Hospital's financial position to make timely operational changes.

Contacting the Hospital's financial management – This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Patrick Banks, Chief Financial Officer, at Bay Area Hospital, 1775 Thompson Road, Coos Bay, Oregon 97420.

Financial Statements

**Bay Area Health District
dba Bay Area Hospital
Statements of Net Position
June 30, 2025 and 2024**

	2025	2024
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and cash equivalents	\$ 9,481,820	\$ 10,815,033
Patient accounts receivable, net of allowance for doubtful accounts of \$4,797,930 in 2025 and \$5,262,052 in 2024	26,026,319	28,459,040
Supplies inventory	4,347,042	5,131,308
Current portion of assets limited as to use	19,128,482	11,370,086
Prepaid expenses and other current assets	8,612,126	7,400,592
Total current assets	67,595,789	63,176,059
Assets limited as to use, net of current portion	13,273,806	36,570,822
Capital assets		
Depreciable capital assets, net	62,170,274	69,238,681
Nondepreciable capital assets	2,369,703	1,410,339
Total capital assets, net	64,539,977	70,649,020
Other assets		
Lease right-of-use assets, net	1,415,678	2,287,724
Subscription based right-of-use assets, net	1,570,595	7,167,957
Other noncurrent assets	820,452	684,051
Total other assets	3,806,725	10,139,732
Total assets	149,216,297	180,535,633
Deferred outflows of resources		
Defined benefit pension plan	5,668,885	9,154,948
Postemployment health care plan	336,147	334,182
Total deferred outflows of resources	6,005,032	9,489,130
Total assets and deferred outflows of resources	\$ 155,221,329	\$ 190,024,763

See accompanying notes.

**Bay Area Health District
dba Bay Area Hospital
Statements of Net Position
June 30, 2025 and 2024**

	2025	2024
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current liabilities		
Accounts payable	\$ 7,788,748	\$ 9,869,356
Accrued liabilities		
Payroll, payroll taxes, and withholdings	4,414,628	4,234,649
Paid time off	5,407,083	5,770,522
Other	6,141,175	6,483,503
Estimated third-party payor settlements payable, net	5,706,639	3,750,352
Current obligation due to event of default (Note 2 and 7)	45,065,869	-
Current portion of long-term debt	-	1,576,090
Current portion of lease obligations	642,822	838,740
Current portion of subscription liabilities	289,535	1,136,452
Total current liabilities	<u>75,456,499</u>	<u>33,659,664</u>
Noncurrent liabilities		
Long-term debt, net of current portion	-	45,065,869
Long-term portion of lease obligation	1,078,123	1,522,552
Long-term portion of subscription liabilities	913,627	2,915,058
Net pension liability	630,964	3,652,580
Other noncurrent liabilities	2,942,506	3,010,933
Total noncurrent liabilities	<u>5,565,220</u>	<u>56,166,992</u>
Total liabilities	<u>81,021,719</u>	<u>89,826,656</u>
Deferred inflows of resources		
Defined benefit pension plan	9,593,615	10,419,894
Postemployment health care plan	948,458	977,479
Total deferred inflows of resources	<u>10,542,073</u>	<u>11,397,373</u>
Total liabilities and deferred inflows of resources	<u>91,563,792</u>	<u>101,224,029</u>
Net position		
Net investment in capital assets	19,536,274	27,049,940
Unrestricted	44,121,263	61,750,794
Total net position	<u>63,657,537</u>	<u>88,800,734</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 155,221,329</u>	<u>\$ 190,024,763</u>

See accompanying notes.

Bay Area Health District
dba Bay Area Hospital
Statements of Revenue, Expenses and Changes in Net Position
Years Ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
OPERATING REVENUES		
Net patient service revenue - net of provision for bad debts of \$2,549,385 in 2025 and \$5,484,942 in 2024	\$ 235,536,371	\$ 240,383,933
Other operating revenue	<u>4,639,631</u>	<u>3,616,009</u>
Total operating revenue	<u>240,176,002</u>	<u>243,999,942</u>
OPERATING EXPENSES		
Salaries and benefits	124,567,982	113,877,798
Supplies and other	64,005,049	62,967,578
Professional fees and purchased services	66,411,143	62,198,608
Depreciation and amortization	<u>10,217,821</u>	<u>11,683,555</u>
Total operating expenses	<u>265,201,995</u>	<u>250,727,539</u>
OPERATING LOSS	<u>(25,025,993)</u>	<u>(6,727,597)</u>
NONOPERATING (EXPENSES) INCOME		
Investment gain, net	2,224,152	1,702,252
Government stimulus income	-	1,084,554
Noncapital contributions	1,301,122	1,292,954
Gain (loss) on sale of capital assets and loss on termination of subscription-based IT arrangement	(1,287,915)	100,000
Interest expense	<u>(2,354,563)</u>	<u>(2,412,570)</u>
Total nonoperating (expenses) income	<u>(117,204)</u>	<u>1,767,190</u>
DECREASE IN NET POSITION	(25,143,197)	(4,960,407)
NET POSITION, beginning of year	<u>88,800,734</u>	<u>93,761,141</u>
NET POSITION, end of year	<u><u>\$ 63,657,537</u></u>	<u><u>\$ 88,800,734</u></u>

See accompanying notes.

**Bay Area Health District
dba Bay Area Hospital
Statements of Cash Flows
Years Ended June 30, 2025 and 2024**

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	\$ 239,925,379	\$ 229,919,922
Payments to suppliers and contractors	(131,559,030)	(123,251,365)
Payments to employees	(124,955,313)	(110,125,217)
Other receipts and payments, net	3,826,405	1,226,648
Net cash used by operating activities	(12,762,559)	(2,230,012)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipt of government stimulus grants	-	1,084,554
Noncapital contributions	1,301,122	1,292,954
Net cash provided by noncapital financing activities	1,301,122	2,377,508
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets, net	(3,602,819)	(3,019,137)
Proceeds from sale of capital assets	891,363	168,948
Proceeds from issuance of long-term debt	-	146,949
Principal paid on long-term debt	(1,576,090)	(1,384,490)
Payments lease obligations	(640,347)	(814,551)
Payments of subscription liabilities	(352,092)	(1,210,665)
Interest paid on long-term debt and obligations	(2,354,563)	(2,412,570)
Net cash used by capital and related financing activities	(7,634,548)	(8,525,516)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases on investments	(57,152,308)	(39,862,640)
Proceeds from sales of investments	73,372,028	45,322,958
Investment gain, net	1,543,052	1,702,252
Net cash provided by investing activities	17,762,772	7,162,570
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,333,213)	(1,215,450)
CASH AND CASH EQUIVALENTS, beginning of year	10,815,033	12,030,483
CASH AND CASH EQUIVALENTS, end of year	\$ 9,481,820	\$ 10,815,033

See accompanying notes.

**Bay Area Health District
dba Bay Area Hospital
Statements of Cash Flows
Years Ended June 30, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
RECONCILIATION OF OPERATING LOSS TO		
NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (25,025,993)	\$ (6,727,597)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization	8,137,201	8,836,512
Amortization of lease right-of-use asset	872,046	838,328
Amortization of subscription assets	1,208,574	2,008,715
Provision for bad debts	2,549,385	5,484,942
Gain (loss) on sale of capital assets and loss on termination of subscription-based IT arrangement	1,287,915	-
Changes in certain operating assets and liabilities		
Patient accounts receivable	(116,664)	(14,022,338)
Supplies inventory	784,266	73,772
Prepaid expenses and other current assets	(1,211,534)	(2,870,388)
Net pension asset and pension liability	(361,832)	2,107,408
Other noncurrent assets	(136,401)	412,369
Accounts payable	(2,080,608)	2,676,529
Accrued liabilities	(525,788)	1,211,357
Estimated third-party payor settlements payable, net	1,956,287	(1,926,615)
Other noncurrent liabilities	(99,413)	(333,006)
Net cash used by operating activities	<u>\$ (12,762,559)</u>	<u>\$ (2,230,012)</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Subscription-based information technology arrangement (SBITA) assets obtained in exchange for SBITA liabilities	<u>\$ -</u>	<u>\$ 825,484</u>

See accompanying notes.

**Bay Area Health District
dba Bay Area Hospital
Statements of Fiduciary Net Position
June 30, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
Assets		
Cash and cash equivalents	\$ 7,158,585	\$ 4,442,525
Investments at fair value – mutual funds	<u>50,489,664</u>	<u>51,227,782</u>
 Total assets	 <u>57,648,249</u>	 <u>55,670,307</u>
 Net position restricted for pension benefits	 <u><u>\$ 57,648,249</u></u>	 <u><u>\$ 55,670,307</u></u>

See accompanying notes.

**Bay Area Health District
dba Bay Area Hospital
Statements of Changes in Fiduciary Net Position
Years Ended June 30, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
Additions		
Investment income		
Net appreciation in fair value of investments	\$ 4,998,059	\$ 6,542,515
Dividends	<u>1,391,832</u>	<u>1,270,512</u>
Total investment income	<u>6,389,891</u>	<u>7,813,027</u>
Employer contributions	800,000	-
Total additions	<u>7,189,891</u>	<u>7,813,027</u>
Deductions		
Benefits paid to participants	<u>5,211,949</u>	<u>5,121,558</u>
Total deductions	<u>5,211,949</u>	<u>5,121,558</u>
Increase in net position	1,977,942	2,691,469
Net position restricted for pension benefits, beginning of year	<u>55,670,307</u>	<u>52,978,838</u>
Net position restricted for pension benefits, end of year	<u><u>\$ 57,648,249</u></u>	<u><u>\$ 55,670,307</u></u>

See accompanying notes.

Bay Area Health District dba Bay Area Hospital

Notes to Financial Statements

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

Business and organization – Bay Area Health District, dba Bay Area Hospital (the Hospital), was incorporated as a municipal corporation in Coos County, Oregon, in June 1952. The Hospital provides various health care and health care related services to the citizens of Coos Bay and North Bend, Oregon, and to others in the Southern Oregon Coastal area.

The Hospital is the trustee, or fiduciary, for a defined benefit employee pension plan (the Defined Benefit Plan) (see Note 9). The Hospital is responsible for the assets of the Defined Benefit Plan which, because of a trust arrangement, can be used only for the trust beneficiaries. All of the Hospital's fiduciary activities (which are solely related to the Defined Benefit Plan) are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 18 and 19. These activities are excluded from the Hospital's other financial statements because the Hospital cannot use these assets to finance its operations. The Hospital is responsible for ensuring that the assets reported in this fiduciary fund are used for their intended purposes.

The Hospital receives support from Bay Area Hospital Auxiliary (the Auxiliary). The Auxiliary is a separate nonprofit corporation and a tax-exempt organization under the provisions of the Internal Revenue Code (the Code).

The Hospital has also established the Bay Area Community Information Agency (BACIA), a separate governmental agency with the purpose of facilitating the exchange of electronic health care information among health care providers in the Hospital's operating region. BACIA's board of directors is appointed by the Hospital's Board of Directors (the Board) and is required to include at least one member of the Board or management of the Hospital (Management). Although the Hospital has agreed to provide support to fund BACIA's operations as needed, no funding was required for the years ended June 30, 2025 and 2024. In June 2024, BACIA was dissolved by the Board of Directors.

Basis of presentation and accounting – The accompanying financial statements include the accounts and transactions of the Hospital and, as described above, the Hospital's fiduciary activities related to the defined benefit pension plan. The accompanying financial statements do not include the accounts and transactions of the Auxiliary or BACIA, as such accounts and transactions are not significant to the Hospital's separate financial statements. The Hospital is not a component unit of any other organization.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S.), as applied to governmental units (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Accordingly, the Hospital utilizes the enterprise fund method of accounting, whereby revenue, income, gains, expenses, and losses are recognized on the accrual basis using the economic resources measurement focus. Substantially all revenue, income, gains, expenses, and losses are subject to accrual. Since the Hospital is only engaged in business-type activities and fiduciary activities, it is required to present only the financial statements required for enterprise funds and fiduciary funds.

Bay Area Health District

dba Bay Area Hospital

Notes to Financial Statements

Use of estimates – The preparation of financial statements in accordance with GAAP requires 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 financial statements and the reported amounts of revenue, income, gains, expenses, and losses during the reporting period. Actual results could differ from those estimates.

Budgets – The Hospital is required to prepare and adopt an annual operating budget in accordance with Oregon Local Budget Law. This budget is prepared differently, in some respects, from GAAP. The differences are primarily as follows:

- Principal debt service payments are treated as expenditures for budgetary purposes.
- Purchases of capital assets are treated as capital outlay expenditures for budgetary purposes.
- Depreciation expense is not budgeted.

Expenditures are controlled by appropriations adopted by resolutions of the Board, as permitted by Oregon Local Budget Law. The Hospital makes annual appropriations by object classification (i.e., personnel services, materials and services, capital outlay, and debt service). Unexpended appropriations lapse at the end of each fiscal year.

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 investments (see Note 3).

Patient accounts receivable and allowance for doubtful accounts – The collection of receivables from third-party payors and patients is the Hospital's primary source of cash and is critical to its operating performance. When the Hospital provides care to patients, it does not require collateral; however, it maintains an estimated allowance for doubtful accounts. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but the patient is responsible for the remaining amounts outstanding (generally deductibles and co-payments). The Hospital does not maintain a significant allowance for doubtful accounts related to patient accounts receivable from third-party payors, nor has it historically had significant bad debt write-offs of patient accounts receivable from third-party payors. However, for services provided to patients who have third-party coverage, the Hospital records the related patient service revenue and patient accounts receivable net of contractual discounts and allowances.

**Bay Area Health District
dba Bay Area Hospital
Notes to Financial Statements**

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

Significant concentrations of net patient accounts receivable as of June 30, 2025 and 2024 were approximately as follows:

	2025	2024
Medicare	45%	38%
Commercial insurance	17%	30%
Medicaid and Oregon Health Plan (OHP)	27%	22%
Other negotiated contracts	2%	3%
Self-pay	9%	7%
	<u>100%</u>	<u>100%</u>

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

Investments – Investments consist of assets (exchange-traded funds (ETFs), a money market account, mortgage-backed securities, U.S. Government Agency obligations, corporate obligations, U.S. Treasury securities, and municipal bonds) internally designated for capital acquisitions (internally designated assets) designated by the Board for future capital acquisitions (over which the Board retains control and may, at its discretion, subsequently use for other purposes) (see Note 3). Investments are stated at fair value in the accompanying statements of net position (see Note 14 for a discussion of fair value measurements). Interest, dividends, and gains (losses), both realized and unrealized, on these investments are included in nonoperating revenue when earned (incurred).

Capital assets – The Hospital considers an asset which has an estimated useful life in excess of one year to be a capital asset. Purchased capital assets costing more than \$5,000 are recorded at historical cost. Capital assets costing \$5,000 or less are recorded as expense in the year of acquisition. Contributed capital assets are recorded at their estimated fair value at the time of their donation. Improvements and replacements of capital assets are capitalized. Routine maintenance and repairs are charged to expense as incurred.

**Bay Area Health District
dba Bay Area Hospital
Notes to Financial Statements**

All capital assets other than land are depreciated over their estimated useful lives using the straight-line method. Leases and subscription-based information technology (IT) arrangements that are capitalized in accordance with GASB standards (see below) are recorded separately in the accompanying statements of net position and are amortized over the lease and/or contract terms. Such amortization is included in depreciation and amortization expense in the accompanying financial statements. Depreciation of assets in construction in progress begins when such assets are placed in service. Useful lives of depreciable assets are based on guidelines published by the American Hospital Association.

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

Leases – The Hospital has various leasing arrangements, which are primarily for certain real property such as administration offices, as well as for certain medical and office equipment. The Hospital determines if an arrangement is a lease at inception of the contract. For each lease, the Hospital records a lease asset (representing the right to use the underlying asset for the lease term) and a lease liability (representing the obligation to make lease payments required under the terms of the lease). Lease assets and lease liabilities are recognized at the commencement date based on the present value of lease payments required over the lease term. The Hospital uses its estimated incremental borrowing rate, derived from information available at the lease commencement date, as the discount rate when determining the present value of lease payments.

Many of the Hospital's lease agreements include one or more renewal options. Renewal terms generally extend the related lease from one to five years at the then market rate of rental payment or at a predetermined monthly payment in accordance with the lease agreement. All such renewal options are at the Hospital's discretion. Renewal options are evaluated at the commencement of each lease; only those that are reasonably certain of exercise are included in determining the appropriate lease term and for purposes of calculating the initial lease asset and lease liability.

Certain lease agreements for real property require variable lease payments based on actual common area maintenance expenses and/or real estate taxes. Variable lease payments may also include escalating rent payments that are not fixed at lease commencement but are based on an index that is determined in future periods based on changes in the Consumer Price Index or other measures of inflation. These variable lease payments are recognized in operating expenses but are not included in the lease asset or lease liability balances. The Hospital's lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

Bay Area Health District

dba Bay Area Hospital

Notes to Financial Statements

Subscription-Based Information Technology Arrangements (SBITAs) – A SBITA is a contract that conveys to the Hospital control of the right to use another party's (i.e., a vendor's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. The Hospital has various SBITAs, which are primarily for human resources, accounting, and payroll system, as well as for certain other IT software. The Hospital determines if an arrangement is a SBITA at inception of the contract. For each SBITA, the Hospital records a right-to-use subscription asset (i.e., an intangible asset representing the right to use the underlying IT software for the contract term) and a corresponding subscription liability (representing the obligation to make payments required under the terms of the contract). Subscription-based IT assets and liabilities are recognized at the commencement of the subscription term, which occurs when the initial implementation stage of an IT project is completed, based on the present value of subscription payments expected to be made during the subscription term. The Hospital uses its estimated incremental borrowing rate, derived from information available at the SBITA commencement date, as the discount rate when determining the present value of subscription payments.

Certain of the Hospital's SBITAs include one or more renewal options. Renewal terms generally extend the related subscription period for multiple one-year periods at a predetermined monthly payment in accordance with the SBITA contract. All such renewal options are at the Hospital's discretion. Renewal options are evaluated at the commencement of each SBITA; only those that are reasonably certain of exercise are included in determining the appropriate subscription term and for purposes of calculating the initial right-to-use subscription asset and subscription liability.

Paid time off (PTO) – The Hospital's employees earn PTO at varying rates depending on years of service. Employees can accumulate unused PTO from one year to the next, except for PTO in excess of 525 hours. Twice a year, employees can request that up to 80 hours of their unused PTO in excess of 80 hours be paid to them in cash, provided that they have taken at least 80 hours of PTO during the previous year. All unused PTO is paid to employees in cash upon their termination of employment from the Hospital, if proper notice has been given.

Net position, deferred outflows of resources, and deferred inflows of resources – A deferred outflow of resources represents the consumption of net position that is applicable to a future reporting period. A deferred inflow of resources represents the acquisition of net position that is applicable to a future reporting period. As of June 30, 2025 and 2024, all of the Hospital's deferred outflows and inflows of resources related to the Hospital's defined benefit pension plan (see Note 9) and postemployment health care plan (see Note 11).

Net position of municipal hospitals is typically classified into three broad components as follows:

- *Net investment in capital assets* consists of capital assets, leases, and SBITAs, net of accumulated depreciation and amortization, as well as net of the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Bay Area Health District dba Bay Area Hospital

Notes to Financial Statements

- *Restricted net position* can include two components: *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by bond indentures, and *restricted nonexpendable net position* equals the principal portion of permanent endowments. As of June 30, 2025 and 2024, the Hospital had no restricted net position.
- *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted expendable* or *restricted nonexpendable net position*.

Net patient service revenue – The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements primarily include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments, and capitated payments. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered and includes estimates for potential retroactive revenue adjustments under reimbursement agreements with third-party payors. Such estimates are adjusted in future periods as final settlements are determined.

A significant portion of the Hospital's services are provided to Medicare, Medicaid, and Oregon Health Plan (OHP) patients under contractual arrangements. Inpatient acute care services rendered by the Hospital to Medicare and Medicaid program beneficiaries are generally 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-adjusted 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. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. Home health services related to Medicare beneficiaries are reimbursed under a prospective payment system methodology. Certain outpatient services related to Medicare and Medicaid beneficiaries are reimbursed under 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 and Medicaid. The Hospital's cost reports have been audited and final settled by the Medicare fiscal intermediary through June 30, 2018, and Medicaid through June 30, 2017.

The Hospital receives federal funding through the Disproportionate Share Hospital (DSH) Medicaid program. DSH provides additional funding to hospitals that have a disproportionate share of uncompensated care and Medicaid patients, and funds are distributed to hospitals using an agreed-upon distribution methodology. During the year ended June 30, 2022, the Hospital's 2018 and 2019 DSH funds were audited by the Oregon Health Authority (OHA), and, as a result, it is estimated that the Hospital will need to return DSH funds aggregating approximately \$1,999,000 for those two years. The Hospital is contesting the results of the OHA audit, and the ultimate resolution of this process is currently uncertain. During the appeal, the Hospital has to return DSH funds that were received for 2020 and 2021 aggregating approximately \$1,590,000. Accordingly, the Hospital has recorded a liability for such amounts totaling approximately \$3,910,000, \$2,812,000, and \$3,869,000 as of the years ended June 30, 2025, 2024, and 2023, respectively, which is included in estimated third-party payor settlements payable in the accompanying statements of net position.

**Bay Area Health District
dba Bay Area Hospital
Notes to Financial Statements**

The Hospital transitioned from a capitation to a fee-for-service model effective August 1, 2023 through its contact with the coordinated care organization, Western Oregon Advanced Health. During the years ended June 30, 2025 and 2024, the Hospital received approximately \$0 and \$1,849,000, respectively, in capitation payments related to OHP beneficiaries (see Note 14), which are included in net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position.

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

Gross and net patient service revenue for services provided by the Hospital to Medicare, Medicaid, and OHP patients aggregated approximately \$450,000,000 and \$112,000,000 respectively, for the year ended June 30, 2025, and \$431,000,000 and \$112,000,000, respectively for the year ended June 30, 2024.

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. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates based on the type of service delivered.

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 or underinsured individuals with an annual household income at, or less than, 200% 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 uninsured individuals with an annual household income of between 200% and 450% of the Guidelines. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported as net patient service revenue (see Note 8).

Operating revenue and expenses – The Hospital's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenue (expenses), including investment income, net, grants and contributions received for purposes other than capital asset acquisition, government stimulus income, and gains and losses on disposals of capital assets, are reported as nonoperating revenue (expenses). Operating expenses include all expenses incurred to provide health care services, other than financing costs.

Bay Area Health District dba Bay Area Hospital Notes to Financial Statements

Grants and contributions – Periodically, the Hospital receives grants from other municipalities, as well as contributions from individuals and private organizations. During the years ended June 30, 2025 and 2024, the Hospital received grants of \$0 and \$1,084,554, respectively, from the Department of Health and Human Services (HHS) under the *Coronavirus Aid, Relief and Economic Security Act* (Acts). Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted either for specific operating purposes or for capital purposes. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted for capital acquisitions would be reported after nonoperating revenue and expenses in the statement of revenue, expenses, and changes in net position.

Oregon provider tax – Oregon levies a "provider tax" on certain qualifying hospitals, including the Hospital, to provide additional funding for OHP. The tax is based on net patient service revenue, as adjusted in accordance with the rules governing the program. The Hospital recorded provider taxes of approximately \$12,524,000 and \$13,158,000 for the years ended June 30, 2025 and 2024, respectively, which are included in supplies and other operating expenses in the accompanying statements of revenue, expenses, and changes in net position.

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 service revenue in the accompanying statement of revenue, expenses, and changes in net position. Prepaid expenses and other current assets include approximately \$2,700,000 and \$3,500,000 of provider taxes receivable due from OAHHS as of June 30, 2025 and 2024, respectively, and other accrued liabilities include approximately \$2,800,000 and \$3,500,000 of provider taxes payable to OAHHS as of June 30, 2025 and 2024, respectively, in the accompanying statement of net position. Generally, the amount of annual receipts from OAHHS matches the annual amount of taxes paid.

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; 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 insurance coverage in any of the past three years. The Hospital is self-insured for employee health care claims up to \$250,000. Employee health care claims are accrued as the incidents which give rise to them become known. The provision and accrual for estimated employee health care claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are based upon the estimated cost of settlement. Management believes that adequate amounts have been included in accrued liabilities accrued in the accompanying financial statements to cover estimated employee health care claims.

Bay Area Health District

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Notes to Financial Statements

The Hospital's grant funding is subject to various risks, including changes in government policy and potential executive orders issued by federal, state, or local authorities. These executive orders may result in modifications, delays, or cancellations of grant funding programs that could adversely impact the Hospital's ability to fulfill its commitments under existing programs. The Hospital has assessed these risks and believes that any potential impact from such executive orders is uncertain. The ultimate effect on the Hospital's financial position and results of operations will depend on future governmental actions and the timing of their implementation. The Hospital will continue to monitor developments related to these executive orders and will take appropriate actions as necessary. As a result of federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers, and employers. Further legislative policies are required for several provisions that will be effective in future years. The impact of this legislation will likely affect the Hospital and any effect is not determinable at this time.

Federal and state income taxes – The Hospital is a municipal corporation. In addition, the Internal Revenue Service (IRS) has issued a determination letter stating that the Hospital is exempt from federal income taxes under Section 501(c)(3) of the Code. Accordingly, only unrelated business income is subject to federal or state income taxes. 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 financial statements.

The Hospital is classified as an affiliate of a governmental unit by the IRS. Therefore, the Hospital is not required to file a federal information return in the U.S. or a state information return in Oregon unless it has unrelated business income. Accordingly, the Hospital did not file such returns for the years ended June 30, 2025 and 2024.

New accounting pronouncements – During the fiscal year ended June 30, 2025, the following GASB pronouncements were effective and implemented by the Hospital:

- GASB Statement No. 101, "Compensated Absences" – This statement establishes new standards for accounting and financial reporting for compensated absences, which include vacation leave, sick leave and other types of paid time off. The Hospital evaluated the impact of this implementation on beginning net position. No adjustment to beginning net position was required.
- GASB Statement No. 102, "Certain Risk Disclosures" – This statement establishes new standards for disclosing essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. No viable threats to assets or obligations were identified.

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Note 2 – Going Concern and Management's Plans

During the year ended June 30, 2025, the Hospital incurred substantial operating losses and was not in compliance with certain financial covenants of its loan agreements with Bank of Montreal (BMO, formerly, Bank of the West (BOTW). Accordingly, BMO could demand repayment of all amounts outstanding under the related loan agreements, and this raises substantial doubt about the Hospital's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty, other than the reclassification of the related long-term debt to current liabilities.

Management's plans and actions, among others, to improve operating results include the following:

- Reduce compensation costs by \$10.2 million by eliminating 80+ FTE, retaining Hospital employees over contract labor where possible.
- Install labor productivity standards and monitor FTE utilization daily.
- Transition locum tenens physicians to full time contracts and renegotiate physician group contracts to reduce physician fees by \$3.6 million.
- Actively monitor supplies usage and reduce supplies expense per adjusted discharge to lower supplies expense by \$1 million annually.
- Review all contracts for purchased services and other operating expenses to eliminate unnecessary spending and request discounts, targeting \$5.2 million annually.
- Actively manage accounts receivable, including focusing on payor contracts, denials management and cost to collect to generate \$6.0 million in net revenue improvements and cost savings.
- Institute monthly budget variance analysis at the department level.
- The Hospital is evaluating an option to convert to a Type B hospital (a State of Oregon designation that would allow cost-based reimbursement for Medicaid).

Based on this plan, Management believes that cash flows will be adequate to fund the Hospital's operations through at least January 15, 2027. However, there can be no assurance that Management's plans to improve operating results will be successful and the Hospital remains out of compliance with the BMO loan covenants as of the date these financial statements were issued.

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Note 3 – Deposits and Investments

Cash and investments as of June 30, 2025 and 2024, consisted of the following:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents		
Cash on hand	\$ 1,000	\$ 1,000
Cash deposits in a financial institution	<u>9,480,820</u>	<u>10,814,033</u>
Total cash and cash equivalents	<u>9,481,820</u>	<u>10,815,033</u>
Internally designated assets		
Money market account with an investment broker	19,128,482	11,370,086
Mortgage-backed securities	147,551	13,660,996
U.S. Government agency obligations	1,994,200	1,533,927
Corporate obligations	-	4,150,135
U.S. Treasury securities	<u>11,132,055</u>	<u>17,225,764</u>
Total internally designated assets	32,402,288	47,940,908
Total assets limited as to use	32,402,288	47,940,908
Less portion classified as current	<u>(19,128,482)</u>	<u>(11,370,086)</u>
Total assets limited as to use – net of current portion	<u>13,273,806</u>	<u>36,570,822</u>
Total cash and cash equivalents and assets limited as to use	<u><u>\$ 22,755,626</u></u>	<u><u>\$ 47,385,855</u></u>

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Hospital is required by the Oregon Revised Statutes (ORS) Chapter 295 (ORS 295) to maintain any deposits and money market accounts in financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) coverage at certain "qualified depositories." As of and for the years ended June 30, 2025 and 2024, all of the Hospital's deposits and money market accounts in financial institutions in excess of FDIC coverage were maintained at "qualified depositories."

As of June 30, 2025 and 2024, the Hospital had various types of investments and Management believes that the Hospital's credit risk with respect to these investments is minimal due to the diversity of the individual investments and the financial strength of the entities which have issued the securities or instruments. However, due to changes in economic conditions, government intervention, and interest rates, the fair value of the Hospital's investments can be volatile. Consequently, the fair value of the Hospital's investments can significantly change in the near-term as a result of such volatility.

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

As of June 30, 2025 and 2024, the Hospital's investments were rated from Aa1 and AA+ and A2 to Aaa by Moody's Investor Service and Standard & Poor's Corporation, respectively.

Custodial credit risk, deposits – Custodial credit risk is the risk that in the event of a financial institution failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit insurance policy for custodial credit risk. As of June 30, 2025 and 2024, the Hospital had deposits in two financial institutions exposed to custodial credit risk as follows:

	2025	2024
Insured by the Federal Deposit Insurance Corporation	\$ 500,000	\$ 500,000
Collateralized with securities held by the pledging financial institution's trust department or agent in other than the hospital's name	10,848,656	10,848,631
Total	<u>\$ 11,348,656</u>	<u>\$ 11,348,631</u>

The Hospital's deposits at financial institutions are insured by the FDIC up to a combined maximum of \$250,000 per financial institution.

ORS 295 governs the collateralization of Oregon public funds. Oregon's Public Funds Collateralization Program (the PFCP) was created by the Office of the Oregon State Treasurer (the OST) to facilitate bank depository, custodian, and public official compliance with ORS 295. Under the PFCP, which created a shared liability structure for participating depositories, these bank depositories are required to pledge collateral against any public funds' deposits in excess of deposit insurance amounts. Based on information that the banks are required to report quarterly, the PFCP calculates each depository bank's minimum collateral (maximum liability) that must be pledged with the custodian for the next quarter. The pledged securities are designated as subject to the pledge agreement between the depository bank, the custodian bank (the Federal Home Loan Bank of Des Moines, which acts as agent for the depository banks), and the OST, and are held for the benefit of the OST on behalf of the public depositors. As of June 30, 2025 and 2024, the aggregate Oregon public fund collateral pledged exceeded 100% of the public fund deposits held by the Hospital's depository bank.

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The Hospital's investments are reported at fair value, as discussed in Note 14. As of June 30, 2025 and 2024, all of the Hospital's investments were held in the Hospital's name by an investment broker, which is an agent for the Hospital.

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Debt securities with longer maturities are subject to increased risk of adverse interest rate changes. The Hospital has a formal investment policy that limits the expected maturities of investments as a means of managing its exposure to interest rate risk.

As of June 30, 2025 and 2024, the Hospital's investments in debt securities had the following contractual maturities:

June 30, 2025					
	Mortgage- backed Securities	U.S. Government Agency Obligations	Corporate Obligations	U.S. Treasury Securities	Total
Investment maturity					
Less than one year	\$ -	\$ -	\$ -	\$ -	\$ -
1-5 years	7	-	-	7,532,891	7,532,898
6-10 years	-	1,994,200	-	3,599,164	5,593,364
More than 10 years	147,544	-	-	-	147,544
Total	<u>\$ 147,551</u>	<u>\$ 1,994,200</u>	<u>\$ -</u>	<u>\$ 11,132,055</u>	<u>\$ 13,273,806</u>
June 30, 2024					
	Mortgage- backed Securities	U.S. Government Agency Obligations	Corporate Obligations	U.S. Treasury Securities	Total
Investment maturity					
Less than one year	\$ -	\$ 1,533,927	\$ 137,516	\$ -	\$ 1,671,443
1-5 years	2,773,565	-	1,981,512	15,185,900	19,940,977
6-10 years	1,266,286	-	2,031,107	2,039,864	5,337,257
More than 10 years	9,621,145	-	-	-	9,621,145
Total	<u>\$ 13,660,996</u>	<u>\$ 1,533,927</u>	<u>\$ 4,150,135</u>	<u>\$ 17,225,764</u>	<u>\$ 36,570,822</u>

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Note 4 – Patient Accounts Receivable

Patient accounts receivable as of June 30, 2025 and 2024, consisted of the following:

	2025	2024
Receivable from patients and their insurance carriers	\$ 14,219,432	\$ 14,881,964
Receivable from Medicare, net	13,010,437	13,639,459
Receivable from Medicaid and OHP, net	3,594,380	5,199,669
Total patients accounts receivable	30,824,249	33,721,092
Less allowance for doubtful accounts	(4,797,930)	(5,262,052)
Patient accounts receivable, net	\$ 26,026,319	\$ 28,459,040

Note 5 – Capital Assets

The activity in the Hospital's capital assets and related accumulated depreciation accounts for the years ended June 30, 2025 and 2024, was as follows:

	July 1, 2024	Additions/ Provisions	Disposals	Transfers	June 30, 2025
Depreciable capital assets					
Cost					
Land improvements	\$ 2,344,681	\$ -	\$ -	\$ -	\$ 2,344,681
Buildings and improvements	104,398,275	-	(629,838)	-	103,768,437
Fixed equipment	8,789,692	-	-	1,948	8,791,640
Movable equipment	95,339,180	222,581	(411,431)	1,028,041	96,178,371
Total depreciable capital assets	210,871,828	222,581	(1,041,269)	1,029,989	211,083,129
Accumulated depreciation					
Land improvements	2,201,738	12,044	-	-	2,213,782
Buildings and improvements	54,220,692	2,962,636	(535,719)	-	56,647,609
Fixed equipment	7,280,683	310,205	-	-	7,590,888
Movable equipment	77,930,034	4,852,316	(321,774)	-	82,460,576
Total accumulated depreciation	141,633,147	8,137,201	(857,493)	-	148,912,855
Depreciable capital assets, net	69,238,681				62,170,274
Nondepreciable capital assets					
Land	1,138,426	-	(91,500)	-	1,046,926
Construction in progress	27,1913	2,080,853	-	(1,029,989)	1,322,777
Total nondepreciable capital assets	1410,339	\$ 2,080,853	\$ (91,500)	\$ (1,029,989)	2,369,703
Capital assets, net	\$ 70,649,020				\$ 64,539,977

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Notes to Financial Statements**

	July 1, 2023	Additions/ Provisions	Disposals	Transfers	June 30, 2024
Depreciable capital assets					
Cost					
Land improvements	\$ 2,344,681	\$ -	\$ -	\$ -	\$ 2,344,681
Buildings and improvements	104,398,275	-	-	-	104,398,275
Fixed equipment	8,786,509	-	-	3,183	8,789,692
Movable equipment	92,111,866	99,619	(68,948)	3,196,643	95,339,180
Total depreciable capital assets	207,641,331	99,619	(68,948)	3,199,826	210,871,828
Accumulated depreciation					
Land improvements	2,162,396	39,342	-	-	2,201,738
Buildings and improvements	51,044,192	3,176,500	-	-	54,220,692
Fixed equipment	6,917,149	363,534	-	-	7,280,683
Movable equipment	72,673,041	5,257,135	(142)	-	77,930,034
Total accumulated depreciation	132,796,778	8,836,511	(142)	-	141,633,147
Depreciable capital assets, net	74,844,553				69,238,681
Nondepreciable capital assets					
Land	1,138,426				1,138,426
Construction in progress	552,364	2,919,375	-	(3,199,826)	271,913
Total nondepreciable capital assets	1,690,790	\$ 2,919,375	\$ -	\$ (3,199,826)	1,410,339
Capital assets, net	\$ 76,535,343				\$ 70,649,020

Depreciation expense of capital assets was approximately \$8,137,000 and \$8,837,000 for the years ended June 30, 2025 and 2024, respectively.

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Note 6 – Lease Right-of-Use and Subscription Assets

A summary of lease right-of-use assets for the years ended June 30, 2025 and 2024, is as follows:

	<u>July 1, 2024</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2025</u>
Lease right-of-use assets				
Buildings	\$ 1,141,734	\$ -	\$ -	\$ 1,141,734
Movable equipment	<u>3,253,548</u>	<u>-</u>	<u>-</u>	<u>3,253,548</u>
Total lease assets	<u>4,395,282</u>	<u>-</u>	<u>-</u>	<u>4,395,282</u>
Accumulated amortization				
Buildings	760,719	260,395	-	1,021,114
Movable equipment	<u>1,346,839</u>	<u>611,651</u>	<u>-</u>	<u>1,958,490</u>
Total accumulated amortization	<u>2,107,558</u>	<u>\$ 872,046</u>	<u>\$ -</u>	<u>2,979,604</u>
Lease right-of-use assets, net	<u>\$ 2,287,724</u>			<u>\$ 1,415,678</u>
	<u>July 1, 2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2024</u>
Lease right-of-use assets				
Buildings	\$ 1,141,734	\$ -	\$ -	\$ 1,141,734
Movable equipment	<u>3,253,548</u>	<u>-</u>	<u>-</u>	<u>3,253,548</u>
Total lease assets	<u>4,395,282</u>	<u>-</u>	<u>-</u>	<u>4,395,282</u>
Accumulated amortization				
Buildings	507,146	253,573	-	760,719
Movable equipment	<u>762,084</u>	<u>584,755</u>	<u>-</u>	<u>1,346,839</u>
Total accumulated amortization	<u>1,269,230</u>	<u>\$ 838,328</u>	<u>\$ -</u>	<u>2,107,558</u>
Lease right-of-use assets, net	<u>\$ 3,126,052</u>			<u>\$ 2,287,724</u>

Amortization expense of lease right-of-use assets was approximately \$872,000 and \$838,000 for the years ended June 30, 2025 and 2024, respectively.

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A summary of subscription assets for the years ended June 30, 2025 and 2024, is as follows:

	July 1, 2024	Additions	Deletions	June 30, 2025
Subscription assets	\$ 14,303,416	\$ -	\$ (10,783,878)	3,519,538
Accumulated amortization	7,135,459	\$ 1,208,574	\$ (6,395,090)	1,948,943
Subscription assets, net	<u>\$ 7,167,957</u>			<u>\$ 1,570,595</u>
	July 1, 2023	Additions	Deletions	June 30, 2024
Subscription assets	\$ 13,477,932	\$ 825,484	\$ -	\$ 14,303,416
Accumulated amortization	5,126,744	\$ 2,008,715	\$ -	7,135,459
Subscription assets, net	<u>\$ 8,351,188</u>			<u>\$ 7,167,957</u>

Amortization expense of subscription assets was approximately \$1,208,000 and \$2,009,000 for the years ended June 30, 2025 and 2024, respectively.

During the year ended June 30, 2025, the Hospital terminated its existing subscription-based agreement for its accounting software and entered a new one-year arrangement. As a result, the related SBITA asset and corresponding liability were derecognized in accordance with applicable accounting guidance. Subsequent to year-end, the Hospital executed a new three-year contract for the same software at an annual cost of approximately \$950,000.

Note 7 – Long-term Obligations and Other Noncurrent Liabilities

A schedule of changes in the Hospital's long-term obligations and other noncurrent liabilities for the years ended June 30, 2025 and 2024, is as follows:

	July 1, 2024	Additions	Reductions	June 30, 2025	Amounts Due Within One Year	Amounts Due After One Year
Long-term obligations						
Note payable	\$ 46,641,959	\$ -	\$ 1,576,090	\$ 45,065,869	\$ 45,065,869	\$ -
Total long-term obligations	<u>46,641,959</u>	<u>-</u>	<u>1,576,090</u>	<u>45,065,869</u>	<u>45,065,869</u>	<u>-</u>
Other noncurrent liabilities						
Net pension liability (see Note 10)	3,652,580		3,021,616	630,964	-	630,964
Other post-employment benefits (see Note 12)	1,634,086	-	146,106	1,487,980	-	1,487,980
Estimated medical malpractice claims (see Note 13)	931,000	-	50,000	881,000	-	881,000
Other	445,847	127,679	-	573,526	-	573,526
Total other non-current liabilities	<u>6,663,513</u>	<u>127,679</u>	<u>3,217,722</u>	<u>3,573,470</u>	<u>-</u>	<u>3,573,470</u>
Total non-current liabilities	<u>\$ 53,305,472</u>	<u>\$ 127,679</u>	<u>\$ 4,793,812</u>	<u>\$ 48,639,339</u>	<u>\$ 45,065,869</u>	<u>\$ 3,573,470</u>

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	July 1, 2023	Additions	Reductions	June 30, 2024	Amounts Due Within One Year	Amounts Due After One Year
Long-term obligations						
Note payable	\$ 47,879,500	\$ 146,949	\$ 1,384,490	\$ 46,641,959	\$ 1,576,090	\$ 45,065,869
Total long-term obligations	47,879,500	146,949	1,384,490	46,641,959	1,576,090	45,065,869
Other noncurrent liabilities						
Medicare accelerated payments	-	-	-	-	-	-
Net pension liability (see Note 10)	7,133,416	-	3,480,836	3,652,580	-	3,652,580
Other post-employment benefits (see Note 12)	1,638,502	-	4,416	1,634,086	-	1,634,086
Estimated medical malpractice claims (see Note 13)	1,026,000	-	95,000	931,000	-	931,000
Other	428,888	16,959	-	445,847	-	445,847
Total other non-current liabilities	10,226,806	16,959	3,580,252	6,663,513	-	6,663,513
Total non-current liabilities	\$ 77,916,322	\$ 163,908	\$ 4,964,742	\$ 53,305,472	\$ 1,576,090	\$ 51,729,382

In December 2020, the Hospital entered into a \$50,000,000 term loan agreement (the Note Payable) with Bank of the West (BOTW), which is now operating as Bank of Montreal (BMO). The proceeds of the Note Payable were used to help finance a new electronic health records (EHR) system (the EHR System) and a new human resources and financial system, and to repay the Hospital's pre-existing debt to Umpqua Bank. Under terms of the Note Payable, beginning in February 2022, the Hospital was required to make payments in monthly installments of principal and interest of approximately \$220,000, with the remaining outstanding principal (currently estimated to be approximately \$45,065,869) and accrued interest due in December 2030. The initial interest rate on the Note Payable was 2.34%, and the rate is adjusted quarterly based on the Hospital's most recent debt service coverage ratio for the twelve-month period then ended. The Note Payable is secured by a pledge of the Hospital's revenues. The Note Payable may be prepaid in whole or in part, with a prepayment penalty. The Note Payable includes requirements to meet certain financial and operating covenants.

The Hospital and BOTW entered into a series of forbearance agreements in fiscal year 2023 and agreed to modify loan terms at the end of fiscal year 2023. The closing of this agreement occurred in October 2023 and modified the terms of the loan as to allow the Hospital to exit default at the end of fiscal year 2023. The Hospital agreed to an increased interest rate ranging from 4.00% to 5.00% based off of the debt service coverage ratio of the Hospital (4% as of June 30, 2025), pledged real estate collateral and agreed to more frequent financial reporting. As of June 30, 2025, the Hospital has not met several of their covenants and as a result is subject to default provisions. Under default, the default rate is a rate of interest per annum equal to the sum of the Alternate Base Rate (ABR) in effect on such day plus three percent. ABR is defined as a fluctuating rate of interest per annum equal to the greater of the prime rate or the federal funds rate in effect plus 2.50%. The rate at June 30, 2025 was 13%. Outstanding borrowings under the Note Payable as of June 30, 2025 and 2024, were \$45,065,869 and \$46,641,959, respectively.

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As of June 30, 2025, subject to BMO not exercising its right to demand repayment on all outstanding borrows as a result of the covenant violations, scheduled principal and interest repayments on the Note Payable were as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 1,613,368	\$ 3,146,387
2027	1,651,529	3,021,705
2028	1,690,592	2,920,116
2029	1,730,579	2,790,904
2030	1,771,511	2,666,761
Thereafter	36,608,290	1,296,385
Total	<u>\$ 45,065,869</u>	<u>\$ 15,842,258</u>

Note 8 – Lease Obligation and Subscription Liabilities

A summary of the changes in the lease obligation and subscription liabilities during the years ended June 30, 2025 and 2024, is as follows:

	<u>July 1, 2024</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2025</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due After One Year</u>
Lease liabilities	\$ 2,361,292	\$ -	\$ (640,347)	\$ 1,720,945	\$ 642,822	\$ 1,078,123
Subscription liabilities	4,051,510	-	(2,848,348)	1,203,162	289,535	913,627
Total	<u>\$ 6,412,802</u>	<u>\$ -</u>	<u>\$ (3,488,695)</u>	<u>\$ 2,924,107</u>	<u>\$ 932,357</u>	<u>\$ 1,991,750</u>

	<u>July 1, 2023</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2024</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due After One Year</u>
Lease liabilities	\$ 3,175,843	\$ -	\$ (814,551)	\$ 2,361,292	\$ 838,740	\$ 2,361,292
Subscription liabilities	4,436,691	825,484	(1,210,665)	4,051,510	1,136,452	3,245,226
Total	<u>\$ 7,612,534</u>	<u>\$ 825,484</u>	<u>\$ (2,025,216)</u>	<u>\$ 6,412,802</u>	<u>\$ 1,975,192</u>	<u>\$ 5,606,518</u>

As of June 30, 2025, future scheduled principal and interest payments for leases were as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 642,822	\$ 57,447
2027	430,809	37,114
2028	247,046	23,759
2029	242,954	12,686
2030	157,314	2,266
Total	<u>\$ 1,720,945</u>	<u>\$ 133,272</u>

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As of June 30, 2025, future scheduled principal and interest payments for subscription liabilities were as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 289,535	\$ 55,145
2027	295,234	41,875
2028	316,814	28,343
2029	301,579	13,822
Total	<u>\$ 1,203,162</u>	<u>\$ 139,185</u>

Note 9 – Net Patient Service Revenue

Net patient service revenue for the years ended June 30, 2025 and 2024, was comprised of the following:

	<u>2025</u>	<u>2024</u>
Charges at established rates	\$ 739,721,663	\$ 714,209,259
Deductions		
Medicare, Medicaid, and OHP contractual allowances	424,680,231	403,262,121
Other contractual allowances	69,489,308	62,867,816
Provision for bad debts	2,549,385	5,484,942
Charity allowances	<u>7,466,368</u>	<u>2,210,447</u>
Total deductions	<u>504,185,292</u>	<u>473,825,326</u>
Net patient service revenue	<u>\$ 235,536,371</u>	<u>\$ 240,383,933</u>

Management estimates that the net cost of charity care provided was approximately \$4,860,000 and \$1,121,000 for the years ended June 30, 2025 and 2024, respectively. This estimate was based on the Hospital's overall ratio of costs to charges during the year. For the year ended June 30, 2025, approximately 11.5% of all inpatient admissions were classified as charity care; and approximately 6.0% of all outpatient visits in each year were classified as charity care. For the year ended June 30, 2024, approximately 2.5% of all inpatient admissions were classified as charity care; and approximately 2.8% of all outpatient visits in each year were classified as charity care. The largest proportion of services provided on a charity care basis was for emergency room, cardiology, oncology, and imaging services.

Note 10 – The Defined Benefit Plan

Plan description – The Hospital is required to make periodic contributions to the Defined Benefit Plan (Retirement Plan for Employees of Bay Area Health District). Contributions by participants to the Defined Benefit Plan are not required or permitted.

Bay Area Health District dba Bay Area Hospital Notes to Financial Statements

The Defined Benefit Plan is a single-employer plan administered by Principal Life Insurance Co., with oversight by the Hospital's President/Chief Executive Officer (CEO). The Board has the authority to establish and amend benefit provisions. U.S. Bank, N.A., is the trustee of the Defined Benefit Plan. The Defined Benefit Plan's actuary is Independent Actuaries, Inc. The effective date of the Defined Benefit Plan was February 1, 1974, and it was last restated effective January 1, 2014.

Eligibility for new participants to the Defined Benefit Plan was frozen effective January 1, 2002. Also, effective January 1, 2002, and again on January 1, 2003, participants were permitted to irrevocably elect out of the Defined Benefit Plan and have no future benefits accrue. Employees who are participants in the Defined Benefit Plan are not eligible to participate in the Hospital's separate defined contribution plan (see Note 10) unless this election was made.

Prior to the 2002 amendment, all full-time or permanent part-time employees who were not covered by a separate pension plan sponsored under a collective bargaining agreement were eligible to participate in the Defined Benefit Plan. As of December 31, 2024, membership in the Defined Benefit Plan consisted of 26 active participants, 349 inactive participants currently receiving benefits, and 38 inactive participants not yet receiving benefits.

Benefits provided – Benefits under the Defined Benefit Plan are generally calculated as a percentage of the employee's compensation for each year multiplied by the employee's benefit service for that year, accumulated for each year that an employee is eligible to earn benefits. All participants in the Defined Benefit Plan are eligible for normal retirement benefits at age 65. A participant may retire after age 55 with five years of vesting service, with benefits at a reduced level. If a participant's employment is terminated for reasons other than retirement, disability, or death, the participant will be entitled to receive, upon eligibility for retirement, the benefit developed by the benefit formula multiplied by the vested percentage. The amount of the participant's benefit that is not vested will be forfeited. The Defined Benefit Plan's assets are held in trust, independent of the Hospital, but solely for the purpose of paying the Defined Benefit Plan's benefits and administrative expenses. The Defined Benefit Plan does not issue a separate stand-alone financial report; however, the accompanying financial statements include the fiduciary fund financial statements for the Defined Benefit Plan as of and for the years ended June 30, 2025 and 2024.

Funding policy – The contribution requirements of the Hospital are based on the terms of the Defined Benefit Plan document, which was approved, and may be amended, by the Board. The funding policy of the Defined Benefit Plan provides for an actuarially-computed required contribution using the Individual Entry Age Normal cost method of funding. The objective under this method is to fund all benefits under the Defined Benefit Plan in installments which are set as a percentage of payroll, starting at the original participation dates and continuing until assumed retirements, terminations, disabilities, or deaths. The Hospital's annual required contributions were determined as part of an actuarial valuation as of January 1, 2024.

For the years ended June 30, 2025 and 2024, the Hospital contributed \$800,000 and \$0, respectively, to the Defined Benefit Plan.

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Net pension asset (liability) – The Hospital's net pension asset (NPA) (net pension liability (NPL)) was measured as of June 30, 2025, and the total pension liability used to calculate the NPA (NPL) was determined by an actuarial valuation as of January 1, 2025, and projected to June 30, 2025, assuming no actuarial gain or loss.

Actuarial methods and assumptions – Significant actuarial assumptions used in determining the NPA (NPL) and the Hospital's annual required contributions include the following:

1. Rate of return on the investment of present and future assets at 7.25% per year compounded annually,
2. Projected annual salary increases of 5.50%,
3. Projected increase in annual compensation limits of 3.00%,
4. Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection based on Scale MP-2021,
5. Turnover rates established by the V Select and Ultimate Table in the Employee Termination Study by Roger L. Vaughn, as printed in the 1992 edition of the Pension Forum, and
6. Assumed rates of retirement ranging from 2% at age 55 to 100% at age 65.

The Hospital developed the expected long-term rate of return on assets assumption as a weighted average rate based on the target asset allocation of the Defined Benefit Plan and long-term capital market assumptions. The overall return for each asset class was developed by combining a long-term inflation component and the associated expected real rates of return. The development of the capital market assumptions utilized a variety of methodologies, including, but not limited to, historical analysis, stock valuation models such as dividend discount models and earnings yield models, expected economic growth outlook, and market yield analysis. This analysis resulted in the selection of the 7.25% expected long-term rate of return on Defined Benefit Plan assets for the years ended June 30, 2025 and 2024.

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The target asset allocation of the Defined Benefit Plan's assets as of June 30, 2025 and 2024, was as follows:

	2025	2024
Asset category		
Domestic Equities - Large Cap	56%	35%
Fixed Income	30%	35%
Domestic Equities - Small/Mid Cap	10%	11%
Emerging Markets	2%	0%
Money Market	2%	0%
International Equities	0%	19%
Total	100%	100%

The discount rate used to measure the total pension liability was 7.25% as of June 30, 2025 and 2024. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will be made at rates equal to the actuarially determined contribution rate. Based on that assumption, the Defined Benefit Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in NPA (NPL) – The changes in the Hospital's NPA (NPL) for the year ended June 30, 2025 and 2024, were as follows:

	Total Pension Liability (a)	Defined Benefit Plan Fiduciary Net Position (b)	NPA (NPL) (b) - (a)
Balances as of June 30, 2023	\$ 60,112,254	\$ 52,978,838	\$ (7,133,416)
Service cost	163,205	-	(163,205)
Interest	4,187,563	-	(4,187,563)
Differences between expected and actual experience	(18,577)	-	18,577
Investment income, net	-	7,813,027	7,813,027
Employer contributions	-	-	-
Benefit payments	(5,121,558)	(5,121,558)	-
Net changes	(789,367)	2,691,469	3,480,836
Balances as of June 30, 2024	59,322,887	55,670,307	(3,652,580)
Service cost	172,346	-	(172,346)
Interest	4,127,777	-	(4,127,777)
Differences between expected and actual experience	(131,848)	-	131,848
Investment income, net	-	6,389,891	6,389,891
Employer contributions	-	800,000	800,000
Benefit payments	(5,211,949)	(5,211,949)	-
Net changes	(1,043,674)	1,977,942	3,021,616
Balances as of June 30, 2025	<u>\$ 58,279,213</u>	<u>\$ 57,648,249</u>	<u>\$ (630,964)</u>

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Notes to Financial Statements**

The following presents the Hospital's (NPL) as of June 30, 2025 and 2024, calculated using the discount rate of 7.25% as well as what the Hospital's (NPL) would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1.0% Decrease (6.25%)	Current Rate (7.25%)	1.0% Increase (8.25%)
2025			
Net Pension Liability (Asset)	<u>\$ 5,401,409</u>	<u>\$ 630,964</u>	<u>\$ (3,535,655)</u>
	1.0% Decrease (6.25%)	Current Rate (7.25%)	1.0% Increase (8.25%)
2024			
Net Pension Liability	<u>\$ 8,621,209</u>	<u>\$ 3,652,580</u>	<u>\$ 679,232</u>

Pension expense, deferred outflows of resources, and deferred inflows of resources – Pension expense related to the Defined Benefit Plan was approximately \$452,000 and \$2,092,000 for the years ended June 30, 2025 and 2024, respectively. Such amounts are classified in salaries and benefits in the accompanying statement of revenue, expenses, and changes in net position.

As of June 30, 2025 and 2024, the Hospital recorded deferred outflows of resources and deferred inflows of resources related to the Defined Benefit Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2025		
Differences between expected and actual experience	\$ -	\$ 131,848
Net difference between projected and actual earnings on Defined Benefit Plan assets	<u>5,668,885</u>	<u>9,461,767</u>
Total	<u>\$ 5,668,885</u>	<u>\$ 9,593,615</u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
2024		
Differences between expected and actual experience	\$ -	\$ 18,577
Net difference between projected and actual earnings on Defined Benefit Plan assets	<u>9,154,948</u>	<u>10,401,317</u>
Total	<u>\$ 9,154,948</u>	<u>\$ 10,419,894</u>

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Amounts reported as deferred outflows of resources and deferred inflows of resources as of June 30, 2025, will be recognized in future pension expense as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Deferred Outflows (Inflows) of Resources, net</u>
2026	\$ (1,268,145)
2027	1,011,113
2028	(1,823,330)
2029	(1,339,168)
2030	<u>(505,200)</u>
Total deferred outflows of resources, net	<u>\$ (3,924,730)</u>

Note 11 – Defined Contribution Pension Plans

The Hospital also has a defined contribution pension plan (Bay Area Health District Defined Contribution Plan) (the Defined Contribution Plan), which is intended to qualify under section 401(a) of the Code. The Defined Contribution Plan is a single-employer plan administered by Principal Life Insurance Co. with oversight by the Hospital's CEO. The Board may amend or terminate the Defined Contribution Plan at any time. Charles Schwab is the trustee of the Defined Contribution Plan. The Defined Contribution Plan covers substantially all full-time employees who are not covered by a collective bargaining agreement, other than employees who are members of the Oregon Nurses Association (ONA), and are not participating in the Defined Benefit Plan (see Note 9).

The Hospital is required to make a basic contribution to the Defined Contribution Plan of 4% of each eligible participant's compensation. In addition, for each participant with at least one year of service (generally 1,000 eligible hours, as defined by the Defined Contribution Plan) and who elects to make tax-deferred contributions to his or her tax sheltered annuity 403(b) account (403(b) account) or 457 deferred compensation account (457 account), the Hospital is required to make a 50% matching contribution to the Defined Contribution Plan up to a maximum matching contribution of 2% of the participant's compensation.

Participants are immediately vested in their own contributions to their 403(b) accounts or 457 accounts, in the Hospital's contributions to the Defined Contribution Plan, and in all related earnings or losses thereon.

Aggregate participant contributions to 403(b) and 457 accounts during the years ended June 30, 2025 and 2024, were approximately \$6,503,000 and \$5,674,000, respectively. The Hospital's contributions to the Defined Contribution Plan for the years ended June 30, 2025 and 2024, were approximately \$2,512,000 and \$2,305,000, respectively.

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The Hospital also has deferred compensation plans for certain Hospital executives. The amounts charged to expense under these plans were approximately \$189,000 and \$193,000 for the years ended June 30, 2025 and 2024, respectively. As of June 30, 2025 and 2024, the liabilities related to these plans aggregated approximately \$574,000 and \$446,000, respectively, and are included in other noncurrent liabilities in the accompanying statement of net position.

Note 12 – Postemployment Health Care Plan

Plan description – The Bay Area Health District Health Plan (the Health Plan) is a single-employer defined benefit health care plan administered by the Hospital. The Health Plan provides medical, prescription drug, dental, and vision benefits and/or premium reimbursements to eligible retirees and dependents. The Health Plan may be amended by action of the Board. The Health Plan's actuary is Milliman, Inc. The Health Plan does not issue a separate stand-alone financial report. There are no assets accumulated in a trust for the benefit of the Health Plan.

Benefits provided – The contribution requirements of members of the Health Plan and the Hospital are established, and may be amended, by the Board. Early retirees (age 55 with at least five years of service) pay 100% of the Consolidated Omnibus Budget Reconciliation Act (COBRA) premium and may remain in the Health Plan until Medicare eligibility; there is no coverage for early retirees following Medicare eligibility. Other retirees (age 60 with at least twenty years of service) pay 100% of the COBRA premium prior to Medicare eligibility, or are paid up to \$500 per month for an outside policy of their choosing. After Medicare eligibility, the Hospital contributes a fixed dollar amount towards the selected American Association of Retired Persons (AARP) Medicare supplemental insurance for those age 60 with at least 20 years of service. No retiree benefits are paid subsequent to 5 years from the date of retirement. In addition, there are certain grandfathered retirees who have different contribution requirements.

Total Other Postemployment Benefits (OPEB) liability – As of June 30, 2025, the Hospital's total OPEB liability of approximately \$1,488,000 was measured as of June 30, 2024, and was determined by an actuarial valuation as of July 1, 2024, and is included in net pension liability. As of June 30, 2024, the Hospital's total OPEB liability of approximately \$1,634,000 was measured as of June 30, 2023, and was determined by an actuarial valuation as of July 1, 2023.

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Employees covered by benefit terms – As of July 1, 2024 (the actuarial valuation date), the following employees were covered by the benefit terms:

Active employees	734
Retired members	<u>31</u>
Total participants	<u><u>765</u></u>

Actuarial methods and assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the Health Plan as understood by the Hospital and members of the Health Plan) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Hospital and members of the Health Plan to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial assumptions used in determining the OPEB liability as of June 30, 2025 and 2024, include the following:

1. Discount rate of 3.93%,
2. Projected annual salary increases of 3.50%,
3. Projected inflation of 2.50%,
4. Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection based on Scale MP-2021,
5. An initial annual health care cost trend rate of 6.50% for pre-65 medical costs, fluctuating to an ultimate rate of 3.75% in 2071. The dental and vision trend rate is 4.00% for all future years, and
6. Entry age normal cost method.

Changes in the total OPEB liability – The changes in the Hospital's total OPEB liability for the years ended June 30, 2025 and 2024, were as follows:

	<u>2025</u>	<u>2024</u>
Balance, beginning of year	\$ 1,634,086	\$ 1,638,502
Service cost	119,524	116,824
Interest	60,894	59,164
Effect of economic/demographic gains or losses	(249,965)	-
Effect of assumption changes or inputs	95,567	(10,855)
Benefit payments	<u>(172,126)</u>	<u>(169,549)</u>
Net changes	<u>(146,106)</u>	<u>(4,416)</u>
Balance, end of year	<u><u>\$ 1,487,980</u></u>	<u><u>\$ 1,634,086</u></u>

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The following presents the Hospital's OPEB liability as of June 30, 2025 and 2024, calculated using the discount rate of 3.93% and 3.65%, respectively, as well as what the Hospital's OPEB liability would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>1.0% Decrease (2.93%)</u>	<u>Current Rate (3.93%)</u>	<u>1.0% Increase (4.93%)</u>
2025			
Total OPEB liability	<u>\$ 1,582,966</u>	<u>\$ 1,487,980</u>	<u>\$ 1,401,080</u>
	<u>1.0% Decrease (2.65%)</u>	<u>Current Rate (3.65%)</u>	<u>1.0% Increase (4.65%)</u>
2024			
Total OPEB liability	<u>\$ 1,735,836</u>	<u>\$ 1,634,086</u>	<u>\$ 1,540,639</u>

The following presents the Hospital's OPEB liability as of June 30, 2025 and 2024, as well as what the Hospital's OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	<u>1.0% Decrease</u>	<u>Current Rate</u>	<u>1.0% Increase</u>
2025			
Total OPEB liability	<u>\$ 1,394,016</u>	<u>\$ 1,487,980</u>	<u>\$ 1,596,407</u>
	<u>1.0% Decrease</u>	<u>Current Rate</u>	<u>1.0% Increase</u>
2024			
Total OPEB liability	<u>\$ 1,544,508</u>	<u>\$ 1,634,086</u>	<u>\$ 1,741,854</u>

OPEB income, expense, deferred outflows of resources, and deferred inflows of

resources – OPEB expense related to the Health Plan was approximately \$177,000 and \$255,000 for the years ended June 30, 2025 and 2024, respectively. Such amounts are classified in salaries and benefits in the accompanying statement of revenue, expenses, and changes in net position.

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As of June 30, 2025 and 2024, the Hospital recorded deferred outflows of resources and deferred inflows of resources related to the Health Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2025		
Differences between expected and actual experience	\$ (452,292)	\$ -
Changes of assumptions or inputs	(496,165)	176,167
Contributions made subsequent to measurement date	<u>-</u>	<u>159,980</u>
Total	<u><u>\$ (948,457)</u></u>	<u><u>\$ 336,147</u></u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
2024		
Differences between expected and actual experience	\$ (311,878)	\$ -
Changes of assumptions or inputs	(665,601)	162,056
Contributions made subsequent to measurement date	<u>-</u>	<u>172,126</u>
Total	<u><u>\$ (977,479)</u></u>	<u><u>\$ 334,182</u></u>

Amounts reported as deferred outflows related to contributions made subsequent to the measurement date will be recognized as a reduction of the total OPEB liability during the year ended June 30, 2025. All other amounts reported as deferred inflows and deferred outflows of resources as of June 30, 2025, will be recognized in future OPEB expense as follows:

Fiscal Years Ending June 30,	Deferred Outflows (Inflows) of Resources
2026	\$ (172,664)
2027	(198,714)
2028	(231,056)
2029	(128,153)
2030	(23,541)
Thereafter	<u>(18,162)</u>
Total deferred outflows of resources, net	<u><u>\$ (772,290)</u></u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**Bay Area Health District
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Notes to Financial Statements**

Note 13 – Commitments and Contingencies

Significant contracts – In fiscal year 2021 the Hospital entered into a long-term agreement with St. Charles Health System to utilize their EHR system, EPIC, through a community connect model. The Hospital agreed to pay maintenance and support costs through fiscal year 2028.

As of June 30, 2025, future maintenance and support costs under the contracts for the EHR System were expected to be approximately as follows:

<u>Fiscal Years Ending June 30,</u>	<u>Amount</u>
2026	\$ 3,387,000
2027	<u>3,387,000</u>
Total	<u><u>\$ 6,774,000</u></u>

Medical malpractice insurance – The Hospital purchases insurance through UMIA Insurance Company, Inc. (UMIA), now operating as Curi. The Hospital is responsible for the first \$25,000 of indemnity payments related to each of its medical malpractice claims, UMIA is responsible for any amounts from \$25,001 to \$1,000,000 per claim and \$3,000,000 in aggregate. Excess coverage is provided by UMIA in the amount of \$10,000,000. The insurance policies under these arrangements are on a claims-made basis. Under these policies, medical malpractice claims reported during the policy period are covered; however, any medical malpractice claim that has been incurred but not reported (IBNR) to the insurance companies during the policy period is not covered.

Based on an actuarial valuation, the Hospital has recorded an estimated liability for IBNR medical malpractice claims, which, along with an estimated liability for reported claims, aggregated to approximately \$881,000 and \$931,000 as of June 30, 2025 and 2024, respectively, and is included in other noncurrent liabilities in the accompanying statement of net position (see Note 6). Management believes that this estimated liability is adequate; however, the establishment of estimated liabilities 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.

Collective bargaining agreement – As of June 30, 2025 and 2024, approximately 51% and 52%, respectively, of the Hospital's employees are covered under a collective bargaining agreement (CBA) with the United Food and Commercial Workers Union (UFCW), which expires on June 30, 2025. In addition, as of June 30, 2025 and 2024, approximately 30% and 31%, respectively, of the Hospital's employees are covered under a CBA with the ONA, which expired on June 30, 2025 but was renewed under a new contract through September 30, 2026.

Bay Area Health District dba Bay Area Hospital Notes to Financial Statements

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 financial position or results of operations.

Note 14 – Other Related Parties

The Hospital is a member of Western Oregon Advanced Health, LLC, dba Advanced Health, a limited liability company, which was formed to operate as a coordinated care organization in Oregon and whose members consist of various Oregon health care organizations. The Hospital's investment in Advanced Health represents an approximate 5% ownership interest and is not significant to the accompanying financial statements. The Hospital's CEO is on the governing Board of Advanced Health. Under terms of a contract with Advanced Health, the Hospital provides health care services to certain OHP patients (for whom Advanced Health has agreed with OHP to provide health care services) on both a capitated and non-capitated basis. During the years ended June 30, 2025 and 2024, the Hospital received approximately \$0 and \$1,849,000, in capitated payments, and \$25,284,000 and \$16,588,000 in non-capitated payments, respectively, from Advanced Health for the provision of health care services to such OHP patients. The Hospital terminated its capitated contract with Advanced Health in the prior year.

Note 15 – 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: Level 1 provides the most reliable measure of fair value, whereas Level 3, 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;

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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.

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 observable inputs and minimize the use of unobservable inputs.

The Hospital's assets measured at fair value consist of certain investments. The following is a description of the valuation methodologies used for the Hospital's assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2025 and 2024.

Mortgage-backed securities, U.S. government agency obligations, corporate obligations, and municipal bonds – The fair value of these securities is determined through reference to prices for identical or similar securities or through model-based techniques (which may consider credit information, observed market information such as market yields, and other factors) in which all significant inputs are observable.

U.S. Treasury securities – The fair value of U.S. Treasury securities is determined by obtaining daily market information from dealers and inter-dealer brokers.

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As of June 30, 2025 and 2024, the Hospital's assets measured at fair value on a recurring basis consisted of the following:

June 30, 2025				
	Level 1	Level 2	Level 3	Total
Assets limited to use				
Mortgage-backed securities	\$ -	\$ 147,551	\$ -	\$ 147,551
U.S. Government agency obligations	-	1,994,200	-	1,994,200
U.S. Treasury securities	11,132,055	-	-	11,132,055
Total	<u>\$ 11,132,055</u>	<u>\$ 2,141,751</u>	<u>\$ -</u>	<u>\$ 13,273,806</u>
June 30, 2024				
	Level 1	Level 2	Level 3	Total
Assets limited to use				
Mortgage-backed securities	\$ -	\$ 13,660,996	\$ -	\$ 13,660,996
U.S. Government agency obligations	-	1,533,927	-	1,533,927
Corporate obligations	-	4,150,135	-	4,150,135
U.S. Treasury securities	17,225,764	-	-	17,225,764
Total	<u>\$ 17,225,764</u>	<u>\$ 19,345,058</u>	<u>\$ -</u>	<u>\$ 36,570,822</u>

The methods above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Management believes that the valuation methods used by the Hospital are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements as of the reporting date.

Supplementary Information

**Bay Area Health District
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Schedule of Changes in Net Position (Liability) and
Related Ratios for the Defined Benefit Plan
Years Ended June 30, 2025 and 2024**

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability										
Service cost	\$ 172,346	\$ 163,205	\$ 160,069	\$ 210,246	\$ 219,835	\$ 238,232	\$ 277,011	\$ 325,971	\$ 372,678	\$ 437,324
Interest	4,127,777	4,187,563	4,235,536	4,262,919	4,218,180	4,320,286	4,284,358	4,211,265	4,166,510	4,071,078
Differences between expected and actual experience	(131,848)	(18,577)	38,990	65,365	18,479	(102,579)	351,926	(745,305)	(113,088)	300,510
Change of assumptions	-	-	-	129,945	999,659	811,844	-	1,295,479	-	-
Benefit payments	(5,211,949)	(5,121,558)	(5,078,069)	(4,916,756)	(4,745,183)	(4,597,527)	(4,200,618)	(3,931,982)	(3,638,654)	(3,310,934)
Change in total pension liability, net	(1,043,674)	(789,367)	(643,474)	(248,281)	710,970	670,256	712,677	1,155,428	787,446	1,497,978
Total pension liability, beginning of year	59,322,887	60,112,254	60,755,728	61,004,009	60,293,039	59,622,783	58,910,106	57,754,678	56,967,232	55,469,254
Total pension liability, end of year (a)	<u>\$ 58,279,213</u>	<u>\$ 59,322,887</u>	<u>\$ 60,112,254</u>	<u>\$ 60,755,728</u>	<u>\$ 61,004,009</u>	<u>\$ 60,293,039</u>	<u>\$ 59,622,783</u>	<u>\$ 58,910,106</u>	<u>\$ 57,754,678</u>	<u>\$ 56,967,232</u>
Defined Benefit Plan fiduciary net position										
Investment income (loss), net	\$ 6,389,891	\$ 7,813,027	\$ 6,112,064	\$ (9,415,600)	\$ 14,718,659	\$ 970,143	\$ 1,844,223	\$ 4,536,281	\$ 7,035,514	\$ 180,733
Employer contributions	800,000	-	100,000	350,000	411,818	582,273	425,000	500,200	919,800	690,000
Benefit payments	(5,211,949)	(5,121,558)	(5,078,069)	(4,916,756)	(4,745,183)	(4,597,527)	(4,200,618)	(3,931,982)	(3,638,654)	(3,310,934)
Change in Defined Benefit Plan fiduciary net position, net	1,977,942	2,691,469	1,133,995	(13,982,356)	10,385,294	(3,045,111)	(1,931,395)	1,104,499	4,316,660	(2,440,201)
Defined Benefit Plan fiduciary net position, beginning of year	55,670,307	52,978,838	51,844,843	65,827,199	55,441,905	58,487,016	60,418,411	59,313,912	54,997,252	57,437,453
Defined Benefit Plan fiduciary net position, end of year (b)	<u>\$ 57,648,249</u>	<u>\$ 55,670,307</u>	<u>\$ 52,978,838</u>	<u>\$ 51,844,843</u>	<u>\$ 65,827,199</u>	<u>\$ 55,441,905</u>	<u>\$ 58,487,016</u>	<u>\$ 60,418,411</u>	<u>\$ 59,313,912</u>	<u>\$ 54,997,252</u>
Net pension asset (liability), end of year (b) – (a)	<u>\$ (630,964)</u>	<u>\$ (3,652,580)</u>	<u>\$ (7,133,416)</u>	<u>\$ 8,910,885</u>	<u>\$ 4,823,190</u>	<u>\$ (4,851,134)</u>	<u>\$ (1,135,767)</u>	<u>\$ 1,508,305</u>	<u>\$ 1,559,234</u>	<u>\$ (1,969,980)</u>
Defined Benefit Plan fiduciary net position as a percentage of the total pension liability	<u>98.92%</u>	<u>93.84%</u>	<u>88.13%</u>	<u>85.33%</u>	<u>107.91%</u>	<u>91.95%</u>	<u>98.10%</u>	<u>102.56%</u>	<u>102.70%</u>	<u>96.54%</u>
Covered payroll	<u>\$ 2,578,876</u>	<u>\$ 2,965,269</u>	<u>\$ 2,849,647</u>	<u>\$ 2,866,617</u>	<u>\$ 3,474,647</u>	<u>\$ 3,982,471</u>	<u>\$ 4,448,511</u>	<u>\$ 5,010,047</u>	<u>\$ 5,918,890</u>	<u>\$ 6,919,373</u>
Net pension asset (liability) as a percentage of covered payroll	<u>(24.47%)</u>	<u>(123.18%)</u>	<u>(250.33%)</u>	<u>(310.85%)</u>	<u>138.81%</u>	<u>(121.81%)</u>	<u>(25.53%)</u>	<u>30.11%</u>	<u>26.34%</u>	<u>(28.47%)</u>

**Bay Area Health District
dba Bay Area Hospital
Schedule of Contributions to the Defined Benefit Plan
Years Ended June 30, 2025 and 2024**

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ 20,165	\$ 218,821	\$ 1,036,821	\$ -	\$ 481,063	\$ 1,409,170
Contribution in relation to the actuarially determined contribution	-	-	100,000	350,000	411,818	582,273	425,000	500,200	919,800	690,000
Contribution deficiency (excess)	-	-	(100,000)	(350,000)	(391,653)	(363,452)	611,821	(500,200)	(438,737)	719,170
Covered payroll	\$ 2,578,876	\$ 2,965,269	\$ 2,849,647	\$ 2,866,617	\$ 3,474,647	\$ 3,982,471	\$ 4,448,511	\$ 5,010,047	\$ 5,918,890	\$ 6,919,373
Contribution as a percentage of covered payroll	0.00%	0.00%	3.51%	12.21%	11.85%	14.62%	9.55%	9.98%	15.54%	9.97%

Methods and significant actuarial assumptions used in determining the net pension asset (liability) and the Hospital's annual required contribution include the following:

Actuarial cost method is individual entry age normal

Rate of return on investments	7.25%	7.25%	7.25%	7.50%	7.25%	7.50%	7.50%	7.50%	7.50%	7.50%
Projected annual salary increases	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
Projected increase in annual compensation limits	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection using Scale MP-2021 for 2025, 2024, 2023 and 2022

Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection using Scale MP-2020 for 2021

Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection using Scale MP-2019 for 2020

Mortality using the RP2000 Mortality Table with fully generational projection using Scale BB for 2019 and 2018

Mortality using the RP2000 Mortality Table projected to 2020 using Scale BB for 2017 and 2016

Turnover rates established by the *V Select and Ultimate Table* in the Employee Termination Study by Roger L. Vaughn, as printed in the 1992 edition of the Pension Forum

Assumed rates of retirement ranging from 2% at age 55 to 100% at age 65

**Bay Area Health District
dba Bay Area Hospital
Schedule of Changes in Total OPEB Liability and
Related Ratios for the Health Plan
Year Ended June 30, 2025 and 2024**

	2025	2024	2023	2022	2021	2020	2019	2018
Total OPEB Liability								
Service cost	\$ 119,524	\$ 116,824	\$ 233,156	\$ 226,797	\$ 149,988	\$ 123,716	\$ 176,673	\$ 186,776
Interest	60,894	59,164	65,792	65,741	89,222	116,285	133,672	114,192
Effect of changes to benefit terms	-	-	-	-	-	(529,927)	-	-
Effect of economic/demographic gains or losses	(249,965)	-	(441,561)	-	(5,462)	-	(84,659)	-
Effect of assumption changes or inputs	95,567	(10,855)	(907,492)	9,524	354,849	78,042	(591,150)	(187,156)
Benefit payments	(172,126)	(169,549)	(246,963)	(227,538)	(251,341)	(288,054)	(333,026)	(423,119)
Change in total OPEB liability, net	(146,106)	(4,416)	(1297,068)	74,524	337,256	(499,938)	(698,490)	(309,307)
Total OPEB liability, beginning of the year	\$ 1,634,086	\$ 1,638,502	\$ 2,935,570	\$ 2,861,046	\$ 1,325,362	\$ 3,023,728	\$ 3,722,218	\$ 4,031,525
Total OPEB liability, end of the year	1,487,980	1,634,086	1,638,502	2,935,570	1,662,618	2,523,790	3,023,728	3,722,218
Covered payroll	\$ 62,392,132	\$ 56,118,959	\$ 51,774,763	\$ 51,100,219	\$ 49,929,679	\$ 47,851,625	\$ 48,252,462	\$ 45,033,885
Total OPEB liability as a percentage of covered payroll	2.38%	2.91%	3.16%	5.74%	3.33%	5.27%	6.27%	5.27%

Notes to Schedule of Changes in Total OPEB Liability and Related Ratios
for the Health Plan

Changes in benefit terms:

The effect of changes to benefit terms reflects the net impact of the addition of certain employees subject to a collective bargaining agreement as covered employees under the Health Plan during the year ended June 30, 2021, offset by the modification of benefits for certain other covered employees during the year ended June 30, 2021.

Changes in assumptions:

Effect of assumption changes or inputs reflects the changes in the discount rate and salary increases each period. As of June 30, 2025, 2024, 2023, 2022, 2021, 2020, 2019, and 2018, the discount rates were 3.93%, 3.65%, 3.54%, 2.16%, 2.21%, 3.50%, 3.87%, and 3.58% respectively. As of June 30, 2025, 2024, 2023, 2022, 2021, 2020, 2019, and 2018, the annual pay increases used 3.5%, 3.5%, 3.50%, 3.50%, 3.50%, 3.50%, and 4.50%, respectively.

**Bay Area Health District
dba Bay Area Hospital
Schedule of Revenue, Expenditures, and Changes in Net Position – Budget and
Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2025**

	Original/ Final Budget	Actual	Variance
Operating revenue			
Net patient service revenue	\$ 263,060,971	\$ 235,536,371	\$ (27,524,600)
Other revenue	3,272,761	4,639,631	1,366,870
Total operating revenue	266,333,732	240,176,002	(26,157,730)
Expenditures			
Personal services	140,834,164	124,567,982	(16,266,182)
Materials and services	112,432,216	130,416,192	17,983,976
Capital outlay	8,234,408	2,303,107	(5,931,301)
Debt service	3,629,012	2,354,563	(1,274,449)
Contingencies	700,000	-	(700,000)
Total expenditures	265,829,800	259,641,844	(6,187,956)
Operating loss	503,932	(19,465,842)	(19,969,774)
Nonoperating revenue (expense)			
Investment income, net	-	2,224,152	2,224,152
Noncapital contributions	-	1,301,122	1,301,122
Loss on sale of capital assets	-	(1,287,915)	(1,287,915)
Interest expense	(2,321,518)	(2,354,563)	(33,045)
Other	1,215,833	-	(1,215,833)
Total nonoperating revenue, net	(1,105,685)	(117,204)	988,481
Income (loss) before capital contributions	(601,753)	(19,583,046)	(18,981,293)
Difference between GAAP and budgetary basis, net	1,123,003	(5,757,739)	(6,880,742)
Increase (decrease) in net position	521,250	(25,340,785)	(25,862,035)
Net position, June 30, 2024	88,800,734	88,800,734	-
Net position, June 30, 2025	\$ 89,321,984	\$ 63,459,949	\$ (25,862,035)

Report of Independent Auditors Required by Oregon State Regulations

The Board of Directors
Bay Area Hospital District, dba Bay Area Hospital

We have audited, in accordance with auditing standards generally accepted in the United States of America the financial statements of Bay Area Hospital District, dba Bay Area Hospital (the Hospital) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Bay Area Hospital's basic financial statements, and have issued our report thereon dated January 15, 2026. An Emphasis of Matter paragraph describing substantial doubt about the Hospital's ability to continue as a going concern is included in our Report of Independent Auditors on the financial statements.

Compliance

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

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to, the following:

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

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the 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 have not been identified.

Purpose of this Report

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

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



Tony Andrade, Principal,
for Baker Tilly US, LLP
Portland, Oregon
January 15, 2026

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.

Attachment A

Exhibit 1.f.vi

HCMO-1c: Facilities and Location Form

Health Care Market Oversight (HCMO) Program

HCMO-1c: Facilities and Locations Form

List all health care facilities and locations associated with parties to the proposed material change transaction that currently operate in Oregon. Please add additional rows or pages as needed. Submit the completed form in a portable document form (pdf) to hcmo.info@oha.oregon.gov. This form will be published.

For each location, include the location or facility name, street address, services provided at the location, and service area zip codes. Service area refers to the smallest number of zip codes from which the location or facility draws at least 75% of its patients, based on home zip codes of patients. Add rows as needed for additional locations.

Locations associated with Party A

Entity Name: Bay Area Hospital District

Location/ Facility Name	Street Address	Services provided at location	Service area zip codes
Bay Area Hospital	1775 Thompson Road, Coos Bay, Oregon 97420	Hospital services (bariatrics, behavioral health, cardiovascular services, diabetes care, dialysis, emergency services, family birthing services, laboratory and pathology services, medical imaging, orthopedic services, palliative care, pediatric services, pharmacy services, rehabilitation services, sleep medicine services, surgical services, telemedicine services, and wound care.)	97420, 97459, 97411, 97423, 97415

Location/ Facility Name	Street Address	Services provided at location	Service area zip codes
Bay Area Cancer Center	1775 Thompson Road, Coos Bay, Oregon 97420	Cancer care (medical oncology and radiology)	97420, 97459, 97411, 97423, 97415
Bay Area Women's Imaging Center	2650 North 17 th Street, Coos Bay, Oregon 97420	Imaging services (mammography, etc.)	97420, 97459, 97411, 97423, 97415
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Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.	Click or tap here to enter text.
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