



Reports of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

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

December 31, 2025 and 2024



Table of Contents

	Page
Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Balance Sheets	5
Consolidated Statements of Operations and Changes in Net Assets	6
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	10
Supplementary Information	
Summary of Operations (Unaudited)	32
Gross Patient Care Service Revenue (Unaudited)	33
Operating Departments' Expenses (Unaudited)	34
Service Departments' Expenses and Administrative and General Expenses (Unaudited)	35
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36
Report of Independent Auditors on Compliance for the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	38
Schedule of Expenditures of Federal Awards	41
Notes to Schedule of Expenditures of Federal Awards	42
Schedule of Findings and Questioned Costs	44
Santiam Memorial Hospital's Response and Corrective Action Plan	46
Summary Schedule of Prior Audit Findings	47

Report of Independent Auditors

The Board of Directors
Santiam Memorial Hospital, dba Santiam Hospital

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Santiam Memorial Hospital (an Oregon nonprofit corporation) and its subsidiaries, collectively doing business as (dba) "Santiam Hospital" (the Hospital), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Santiam Memorial Hospital and its subsidiaries, dba Santiam Hospital, as of December 31, 2025 and 2024, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Santiam Memorial Hospital and its subsidiaries, dba Santiam Hospital, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Supplementary Information

The accompanying schedules of summary of operations, gross patient care service revenue, operating departments' expenses, service departments' expenses and administrative and general expenses, which are the responsibility of management, are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report April 7, 2026, on our consideration of Santiam Memorial Hospital and its subsidiaries, dba Santiam Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Santiam Memorial Hospital and its subsidiaries, dba Santiam Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santiam Memorial Hospital and its subsidiaries, dba Santiam Hospital's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Portland, Oregon
April 7, 2026

Consolidated Financial Statements

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Consolidated Balance Sheets
December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 22,775,211	\$ 16,287,800
Assets limited as to use, current portion	379,628	195,147
Patient accounts receivable	22,554,219	18,564,036
Supplies inventory	2,501,563	2,479,091
Prepaid expenses and other current assets	<u>3,476,183</u>	<u>2,337,246</u>
Total current assets	51,686,804	39,863,320
ASSETS LIMITED AS TO USE, net of current portion	4,920,573	5,029,435
LONG-TERM INVESTMENTS	3,586,144	3,222,742
PROPERTY AND EQUIPMENT, net	46,432,271	45,601,063
FINANCE LEASE RIGHT-OF-USE ASSETS	<u>1,225,086</u>	<u>1,941,223</u>
Total assets	<u><u>\$ 107,850,878</u></u>	<u><u>\$ 95,657,783</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 4,167,117	\$ 4,387,613
Accrued liabilities		
Payroll, payroll taxes, and withholdings	2,260,495	1,764,549
Paid time off	1,946,772	1,791,280
Other	5,761,518	3,736,355
Estimated third-party payor settlements payable, net	1,492,655	508,453
Government refundable advances	615,832	717,299
Current portion of long-term debt	2,176,992	2,083,803
Current portion of finance lease liabilities	<u>646,407</u>	<u>756,605</u>
Total current liabilities	19,067,788	15,745,957
LONG-TERM DEBT, net of current portion	16,989,785	19,021,117
FINANCE LEASE LIABILITIES, net of current portion	1,026,371	1,622,819
OTHER NONCURRENT LIABILITIES	<u>2,130,968</u>	<u>1,990,555</u>
Total liabilities	39,214,912	38,380,448
NET ASSETS		
Without donor restrictions	65,637,928	55,104,277
With donor restrictions	<u>2,998,038</u>	<u>2,173,058</u>
Total net assets	<u>68,635,966</u>	<u>57,277,335</u>
Total liabilities and net assets	<u><u>\$ 107,850,878</u></u>	<u><u>\$ 95,657,783</u></u>

See accompanying notes.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
REVENUE		
Net patient care service revenue	\$ 145,924,612	\$ 124,739,288
Government grant revenue	1,357,794	2,803,679
Other revenue	5,729,546	3,803,259
Net assets released from restrictions – satisfaction of program restrictions	<u>368,343</u>	<u>4,061,616</u>
Total revenue	<u>153,380,295</u>	<u>135,407,842</u>
EXPENSES		
Salaries and benefits	83,540,584	69,138,693
Supplies	19,835,237	18,904,395
Purchased services	15,066,599	11,622,490
Provider tax expense	6,191,876	4,777,147
Depreciation and amortization	5,252,483	4,380,176
Community relations	1,471,313	1,344,456
Insurance	794,219	707,616
Interest	1,009,800	1,163,965
Repairs and maintenance	1,412,632	1,239,381
Utilities	840,569	739,575
Other	<u>8,678,136</u>	<u>8,150,279</u>
Total expenses	<u>144,093,448</u>	<u>122,168,173</u>
OPERATING INCOME	<u>9,286,847</u>	<u>13,239,669</u>
NONOPERATING INCOME		
Investment income, net	972,500	849,545
Other	<u>274,304</u>	<u>342,924</u>
Total other income, net	<u>1,246,804</u>	<u>1,192,469</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>10,533,651</u>	<u>14,432,138</u>

See accompanying notes.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>10,533,651</u>	<u>14,432,138</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	1,193,323	2,158,753
Net assets released from donor restrictions – satisfaction of program restrictions	<u>(368,343)</u>	<u>(4,061,616)</u>
Increase (decrease) in net assets with donor restrictions	<u>824,980</u>	<u>(1,902,863)</u>
TOTAL CHANGE IN NET ASSETS	11,358,631	12,529,275
NET ASSETS, beginning of year	<u>57,277,335</u>	<u>44,748,060</u>
NET ASSETS, end of year	<u><u>\$ 68,635,966</u></u>	<u><u>\$ 57,277,335</u></u>

See accompanying notes.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Consolidated Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 11,358,631	\$ 12,529,275
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	4,473,749	3,694,121
Amortization and accretion of debt obligation – net	145,660	151,075
Amortization of finance lease right-of-use assets	633,074	534,980
Net realized and unrealized gain on investments	(61,924)	(16,957)
Gain on disposals of property and equipment, net	(172,050)	(32,987)
Gain on sale of investments	(97,049)	(123,806)
Restricted contributions	(1,193,323)	(2,158,753)
Changes in certain operating assets and liabilities		
Patient accounts receivable	(3,990,183)	(2,840,181)
Supplies inventory	(22,472)	(214,351)
Prepaid expenses and other current assets	(1,138,937)	(982,407)
Accounts payable	(220,496)	739,746
Accrued liabilities	2,676,601	2,133,513
Estimated third-party payor settlements payable, net	984,202	(72,503)
Government refundable advances	(101,467)	(348,570)
Other noncurrent liabilities	140,413	444,811
Net cash provided by operating activities	<u>13,414,429</u>	<u>13,437,006</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/redemption of investments	1,945,831	898,456
Purchase of investments	(2,150,260)	(1,355,983)
Purchases of property and equipment	<u>(5,132,907)</u>	<u>(7,645,253)</u>
Net cash used in investing activities	<u>(5,337,336)</u>	<u>(8,102,780)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal paid on long-term debt obligations	(2,083,803)	(3,143,294)
Repayment of finance lease obligations	(623,583)	(400,538)
Proceeds from restricted contributions	<u>1,193,323</u>	<u>2,158,753</u>
Net cash used in financing activities	<u>(1,514,063)</u>	<u>(1,385,079)</u>

See accompanying notes.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Consolidated Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	\$ 6,563,030	\$ 3,949,147
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	<u>21,512,382</u>	<u>17,563,235</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	<u><u>\$ 28,075,412</u></u>	<u><u>\$ 21,512,382</u></u>

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

	<u>2025</u>	<u>2024</u>
CASH AND CASH EQUIVALENTS	\$ 22,775,211	\$ 16,287,800
RESTRICTED CASH INCLUDED IN ASSETS LIMITED AS TO USE		
Internally designated for capital acquisitions	453,282	631,641
Restricted funds for other designated uses	93,652	91,728
Donor restricted amounts	44,866	139,076
Restricted amounts related to a mortgage note payable agreement	<u>4,708,401</u>	<u>4,362,137</u>
	<u><u>\$ 28,075,412</u></u>	<u><u>\$ 21,512,382</u></u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS		
Right-of-use assets obtained in exchange for finance lease liabilities	<u><u>\$ 80,943</u></u>	<u><u>\$ 99,254</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u><u>\$ 1,013,802</u></u>	<u><u>\$ 1,193,427</u></u>

See accompanying notes.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

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

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

All of the Hospital's patient service performance obligations relate to contracts with a duration of less than one year. Accordingly, the Hospital has elected to apply the optional exemption provided under GAAP, and, therefore, the Hospital is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The Hospital's unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days – or, in rare instances, within weeks – of the end of the reporting period.

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

A significant portion of the Hospital's services is provided to Medicare, OHP, and Medicaid patients under contractual arrangements. Inpatient acute care services rendered by the Hospital to Medicare program beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors (i.e., Medicare severity-diagnosis related groups or MS-DRGs). Such payments include a capital cost component and may be greater or less than the actual charges for services. Inpatient non-acute care services related to Medicare beneficiaries are reimbursed under a cost reimbursement methodology. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. In addition, certain outpatient services related to Medicare beneficiaries are reimbursed based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after audits of the Hospital's annual cost reports by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited and final settled by the Medicare fiscal intermediary through December 31, 2021. As of December 31, 2025 and 2024, the Hospital recorded approximately \$183,000 payable and \$198,000 receivables, respectively, from Medicare related to annual cost reports.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

Services rendered to OHP beneficiaries are primarily reimbursed at discounts from standard charges or based on fee schedules. Certain services rendered to OHP beneficiaries are partially reimbursed under a capitation agreement. During the years ended December 31, 2025 and 2024, the Hospital received approximately \$1,300,000, in capitation payments related to OHP beneficiaries, which are included in patient care service revenue in the accompanying consolidated statements of operations. Services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Under this methodology, the Hospital is reimbursed at a tentative rate with final settlement determined after audits of the Hospital's annual cost reports by Medicaid. The Hospital's Medicaid cost reports have been audited and final settled by Medicaid through December 31, 2018. As of December 31, 2025 and 2024, the Hospital had recorded approximately \$827,000 and \$707,000 payable, respectively, to Medicaid related to annual cost reports.

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

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

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

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

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

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

The Hospital provides implicit price concessions, primarily to uninsured patients and patients with co-pays, co-insurance, and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and amounts that the Hospital expects to collect based on collection history with similar patients. For the years ended December 31, 2025 and 2024, the Hospital recorded approximately \$4,624,000 and \$3,656,000, respectively, of implicit price concessions as direct reductions of patient care service revenue.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

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

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

Charity care – The Hospital provides services to patients who meet the criteria of its charity care policy without charge or at amounts less than its established rates. The Hospital's criteria for the determination of charity care include the patient's – or the other responsible party's – annual household income, assets, credit history, existing debt obligations, and other indicators of the patient's ability to pay. Generally, uninsured individuals with an annual household income at, or less than, 250% of the Federal Poverty Guidelines (the Guidelines) qualify for charity care under the Hospital's policy. In addition, the Hospital provides discounts on a sliding scale to those individuals with an annual household income of between 250% and 400% of the Guidelines. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported in patient care service revenue.

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

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

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

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

	December 31,		January 1,
	2025	2024	2024
Patient accounts receivable	<u>\$ 22,554,219</u>	<u>\$ 18,564,036</u>	<u>\$ 15,723,855</u>

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

Significant concentrations of gross patient accounts receivable as of December 31, 2025 and 2024, were approximately as follows:

	2025	2024
Medicare	33%	35%
OHP and Medicaid	23%	13%
Commercial insurance and other third-party payors	36%	43%
Self-pay	1%	3%
Other	7%	6%
	<u>100%</u>	<u>100%</u>

Government grants – Government grants consist of federal programs that aid in training and preparation for emergency responses. Government grant arrangements have been evaluated and determined to be nonreciprocal, meaning the granting entity has not received a direct benefit in exchange for the resources provided. Therefore, revenue is recognized as a conditional contribution when the barrier to entitlement is overcome. The barrier to entitlement is considered overcome when expenditures associated with each grant are determined to be allowable and all other significant conditions of the grant are met. The Hospital's policy is to classify grants whose restrictions are met in the same reporting period as the conditions are met as governmental grant revenue without donor restrictions.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with remaining maturities of three months or less at the time of purchase by the Hospital, excluding assets limited as to use (see Note 2). The Hospital maintains its bank accounts at several financial institutions. The Hospital's accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each financial institution. As of December 31, 2025, certain of the Hospital's bank balances exceeded the applicable FDIC coverage; however, management believes that its credit risk with respect to these bank balances is minimal due to the financial strength of the financial institutions.

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

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

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

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

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

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

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

Depreciation is provided over the estimated useful lives of the depreciable assets based on guidelines published by the American Hospital Association and is computed using the straight-line method. Net interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. The Hospital did not capitalize any interest during the years ended December 31, 2025 and 2024.

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

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

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

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

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

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

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

Contributions – Contributions are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires – that is, when a stipulated time restriction ends or purpose restriction is accomplished – net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Hospital's consolidated statements of operations as net assets released from donor restrictions. Donor-restricted and grantor-restricted contributions whose restrictions are met within the same year as received are included in government grant revenue and/or other revenue in the Hospital's consolidated statements of operations. See Note 6.

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

Oregon provider tax – The Hospital is subject to a “provider tax” levied by Oregon to provide additional funding for OHP. The tax is based on patient care service revenue, as adjusted, in accordance with the rules governing the program. The Hospital recorded provider taxes of approximately \$6,192,000 and \$4,777,000 for the years ended December 31, 2025 and 2024, respectively.

In addition, the Hospital has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments to the Hospital related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to the Hospital. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to qualifying hospitals. Any such amounts received by the Hospital from OAHHS are reflected as a component of net patient care service revenue in the accompanying consolidated statements of operations. As of December 31, 2025 and 2024, prepaid expenses and other current assets include approximately \$2,519,000 and \$1,653,000, respectively, of provider taxes receivable due from OAHHS; and other accrued liabilities include approximately \$1,643,000 and \$1,653,000, respectively, of provider taxes payable to OAHHS.

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

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

Income tax positions that meet a “more-likely-than-not” recognition threshold are measured at the largest amount of income tax benefit that is more than 50% likely to be realized upon settlement with the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized income tax benefits in the Hospital’s consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized income tax benefits would be classified as income taxes in the Hospital’s consolidated statements of operations. There were no unrecognized income tax benefits, nor any interest and penalties associated with unrecognized income tax benefits, accrued, or expensed as of and for the years ended December 31, 2025 and 2024.

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

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

The Hospital has evaluated subsequent events through April 7, 2026, which is the date the consolidated financial statements were available to be issued.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

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

Assets limited as to use consisted of the following as of December 31, 2025 and 2024:

	2025	2024
Internally designated for capital acquisitions		
Cash and cash equivalents	\$ 453,282	\$ 631,641
Total internally designated for capital acquisitions	453,282	631,641
Restricted funds for other designated uses	93,652	91,728
Amounts held with donor restrictions principally for Wildfire Relief Fund (primarily cash and cash equivalents)	44,866	139,076
Restricted amounts related to the Mortgage Note (see Note 5)		
Cash held in trust related to mortgage reserve fund	4,328,773	4,166,990
Cash held in escrow related to taxes and insurance	379,628	195,147
Total restricted amounts related to the Mortgage Note	4,708,401	4,362,137
Less portion classified as current	(379,628)	(195,147)
Total restricted amounts related to the Mortgage Note, net of current portion	4,328,773	4,166,990
Total assets limited as to use, net of current portion	<u>\$ 4,920,573</u>	<u>\$ 5,029,435</u>

Long-term investments consisted of the following as of December 31, 2025 and 2024:

	2025	2024
Mutual Funds	\$ 551,752	\$ 422,423
Exchange Traded Funds	705,278	627,073
Money Market Funds	2,329,114	2,173,246
Long-term investments	<u>\$ 3,586,144</u>	<u>\$ 3,222,742</u>

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

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

The Hospital's financial assets available for general expenditure within one year of December 31, 2025 and 2024, consisted of the following:

	2025	2024
Cash and cash equivalents	\$ 22,775,211	\$ 16,287,800
Assets limited to use – held by trustee, current	379,628	195,147
Patient accounts receivable – net	22,554,219	18,564,036
Less government refundable advances	(615,832)	(717,299)
	<u>\$ 45,093,226</u>	<u>\$ 34,329,684</u>

Government refundable advances restricted for healthcare-related expense are deducted from financial assets available for general expenditure in the table above.

Investment income, net consisted of the following for the years ended December 31, 2025 and 2024:

	2025	2024
Interest and dividend income	\$ 813,527	\$ 708,782
Realized gain on sales of securities, net	97,049	123,806
Unrealized gains on securities, net	61,924	16,957
	<u>\$ 972,500</u>	<u>\$ 849,545</u>

Note 3 – Property and Equipment

Property and equipment consisted of the following as of December 31, 2025 and 2024:

	2025	2024
Land	\$ 1,912,367	\$ 1,912,367
Land improvements	834,878	834,878
Buildings and improvements	50,313,058	49,167,569
Equipment	26,447,236	29,215,080
	79,507,539	81,129,894
Less accumulated depreciation	<u>(35,739,694)</u>	<u>(36,894,219)</u>
	43,767,845	44,235,675
Construction in progress	<u>2,664,426</u>	<u>1,365,388</u>
Property and equipment, net	<u>\$ 46,432,271</u>	<u>\$ 45,601,063</u>

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

Construction in progress as of December 31, 2025, includes costs incurred in connection with various capital projects. These include a gift shop and the remainder of the remodel of the administrative area of the emergency room, an expansion of the orthopedic facility to include an x-ray room, and remodel of an existing building to add a pharmacy in Mill City, Oregon. The expected cost of the pharmacy project is approximately \$700,000. Grants and donations totaling \$650,000 have been secured to support this project, reducing the overall financial burden.

Note 4 – Leases

During the year ended December 31, 2025, the Hospital entered into one new finance lease. For the year ended December 31, 2024, the Hospital entered into one new finance lease. The components of finance lease expense were as follows:

	<u>2025</u>	<u>2024</u>
Finance lease expense		
Amortization of right-of-use assets	\$ 633,074	\$ 534,980
Interest on lease liabilities	<u>92,079</u>	<u>112,998</u>
Total lease expense	<u>\$ 725,153</u>	<u>\$ 647,978</u>
Weighted average remaining lease term (in years)	3.00	3.50
Weighted average discount rate	4.02%	4.89%

The future minimum finance lease payments at December 31, 2025, are as follows:

2026	\$ 651,828
2027	641,343
2028	465,412
2029	<u>22,808</u>
Total	1,781,391
Less present value discount	<u>(108,613)</u>
Total finance lease liabilities	<u>\$ 1,672,778</u>

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

Note 5 – Long-Term Debt

Long-term debt consisted of the following as of December 31, 2025 and 2024:

	2025	2024
Mortgage Note	\$ 17,292,647	\$ 18,396,573
SNAP Revenue Note	2,554,414	3,534,291
	<u>19,847,061</u>	<u>21,930,864</u>
Total principal of long-term debt		
	19,847,061	21,930,864
Unamortized bond premium	416,608	484,899
Deferred financing costs – net	<u>(1,096,892)</u>	<u>(1,310,843)</u>
	19,166,777	21,104,920
Total long-term debt		
Less current portion	<u>(2,176,992)</u>	<u>(2,083,803)</u>
	\$ 16,989,785	\$ 19,021,117
Long-term debt, net of current portion	<u><u>\$ 16,989,785</u></u>	<u><u>\$ 19,021,117</u></u>

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

In addition, under the Mortgage Note, the Hospital is required to make a deposit each month into a mortgage reserve fund so that such fund reaches certain scheduled year-end balances (including interest earned by the fund) growing from approximately \$4,000,000 as of December 31, 2024 (see Note 2) to a maximum of approximately \$4,000,000 as of December 31, 2025, with the reserve growing due to interest earned. The mortgage reserve fund schedule (based on estimated interest earnings) anticipates that no monthly deposits will be required from 2023 through 2028. Beginning in 2029, the mortgage reserve fund can be reduced (i.e., the Hospital can begin withdrawing amounts from the fund) in accordance with the mortgage reserve fund schedule such that no balance will remain as of December 31, 2037.

The Mortgage Note and related agreements with HUD include requirements to meet certain financial and operating covenants. A regulatory agreement (the Regulatory Agreement) between the Hospital and HUD relating to the Mortgage Note requires the Hospital to annually report certain financial ratios. As of and for the year ended December 31, 2025, Management believes they are in compliance with their debt covenants. Also, according to the Regulatory Agreement, the Board is required to provide HUD with a written report as to what measures are being taken to improve the Hospital's operations if the Hospital's operating loss exceeds 1.0% of total revenue, the Hospital's excess of revenue over expenses is negative, or the mortgage reserve fund has not been funded in accordance with the mortgage reserve fund schedule.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

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

Required principal payments on long-term obligations for the five years subsequent to December 31, 2025, and thereafter, are as follows:

2026	\$ 2,176,992
2027	2,274,348
2028	1,717,584
2029	1,313,320
2030	1,371,603
Thereafter	<u>10,993,214</u>
	<u><u>\$ 19,847,061</u></u>

Note 6 – Net Assets

The detail of the Hospital's net asset categories at December 31 is as follows:

	<u>2025</u>	<u>2024</u>
Without donor restrictions	\$ 65,637,928	\$ 55,104,277
With donor restrictions		
Capital campaign, Emergency Room remodel	2,953,172	2,033,982
Santiam Canyon Wildfire Relief	-	94,210
Other	<u>44,866</u>	<u>44,866</u>
Total with donor restrictions	<u>2,998,038</u>	<u>2,173,058</u>
Total net assets	<u><u>\$ 68,635,966</u></u>	<u><u>\$ 57,277,335</u></u>

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

Note 7 – Net Patient Care Service Revenue

Net patient care service revenue for the years ended December 31, 2025 and 2024, based on an allocation of the estimated transaction price with the patient by primary payor, was as follows:

	2025	2024
Medicare	\$ 39,485,666	\$ 36,156,906
Medicaid and OHP	23,942,349	23,536,296
Commercial	69,348,328	54,759,405
Other third-party payors	9,397,839	7,636,791
Self-pay	3,750,430	2,649,890
	<u>3,750,430</u>	<u>2,649,890</u>
Net patient care service revenue	<u>\$ 145,924,612</u>	<u>\$ 124,739,288</u>

Net patient care service revenue for the years ended December 31, 2025 and 2024, based on the nature of services provided and timing of revenue recognition, was as follows:

	2025	2024
Inpatient – recognized over time	\$ 30,435,671	\$ 30,018,991
Outpatient – recognized at a point in time	115,488,941	94,720,297
	<u>115,488,941</u>	<u>94,720,297</u>
Net patient care service revenue	<u>\$ 145,924,612</u>	<u>\$ 124,739,288</u>

Management estimates that the net cost of charity care provided was approximately \$2,180,000 and \$957,000 for the years ended December 31, 2025 and 2024, respectively. These estimates were based on the Hospital's overall ratio of cost to charges in each year. For the years ended December 31, 2025 and 2024, approximately 0.40%, of all inpatient admissions and outpatient visits were classified as charity care. The largest proportion of services provided on a charity care basis was for emergency room and surgical services.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

Note 8 – Functional Classification of Expenses

Expenses on a functional basis for the years ended December 31, 2025 and 2024, were as follows:

	Health Care Services			Support Services	Total
	Acute	Ambulatory	Clinics	MG&A	
2025					
Salaries and benefits	20,340,092	28,494,246	24,363,676	10,342,570	\$ 83,540,584
Supplies	3,914,341	13,823,957	1,802,206	294,733	19,835,237
Purchased services	4,389,156	7,171,277	981,286	2,524,880	15,066,599
Provider tax expense	1,362,213	3,777,044	804,944	247,675	6,191,876
Depreciation and amortization	549,746	1,697,338	347,125	2,658,274	5,252,483
Community relations	-	-	-	1,471,313	1,471,313
Insurance	18,253	130,144	337,477	308,345	794,219
Interest	222,156	615,978	131,274	40,392	1,009,800
Repairs and maintenance	379,887	903,373	111,248	18,124	1,412,632
Utilities	165,711	459,471	185,258	30,129	840,569
Other	986,427	508,380	535,449	6,647,880	8,678,136
	<u>\$ 32,327,982</u>	<u>\$ 57,581,208</u>	<u>\$ 29,599,943</u>	<u>\$ 24,584,315</u>	<u>\$ 144,093,448</u>
	Health Care Services			Support Services	Total
		Ambulatory	Clinics	MG&A	
2024					
Salaries and benefits	\$ 17,746,071	\$ 22,161,877	\$ 22,318,233	\$ 6,912,512	\$ 69,138,693
Supplies	3,870,869	12,887,376	1,964,720	181,430	18,904,395
Purchased services	3,149,436	5,729,746	672,567	2,070,741	11,622,490
Provider tax expense	1,050,972	2,914,060	621,029	191,086	4,777,147
Depreciation and amortization	328,431	1,484,060	323,952	2,243,733	4,380,176
Community relations	-	-	-	1,344,456	1,344,456
Insurance	22,473	93,575	202,370	389,198	707,616
Interest	256,072	710,019	151,315	46,559	1,163,965
Repairs and maintenance	289,306	822,994	112,790	14,291	1,239,381
Utilities	145,062	402,217	165,921	26,375	739,575
Other	951,903	664,277	378,607	6,155,492	8,150,279
	<u>\$ 27,810,595</u>	<u>\$ 47,870,201</u>	<u>\$ 26,911,504</u>	<u>\$ 19,575,873</u>	<u>\$ 122,168,173</u>

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

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

Note 9 – Retirement Plan

The Hospital maintains a tax-deferred retirement savings plan (the 401(k) Plan), which is available to all employees who are regularly scheduled to work at least twenty hours per week and are age nineteen or older. Employees are automatically enrolled to defer a portion of their earnings on a pre-tax basis through contributions to the 401(k) Plan. Participants who have completed one year of service are also eligible to receive Hospital contributions. For eligible participants, the Hospital may elect to match participant contributions. During the years ended December 31, 2025 and 2024, the Hospital elected to match 100% of participant contributions up to 3% of the participant's compensation. In December 2025, the Board agreed to contribute an additional 2% of eligible participant's compensation. It was paid in December 2025. Employees are immediately vested in their own contributions and the Hospital's contributions. Total expense incurred by the Hospital related to the 401(k) Plan during the years ended December 31, 2025 and 2024, was approximately \$2,753,000 and \$1,474,000, respectively.

Note 10 – Commitments and Contingencies

Medical malpractice insurance – The Hospital has a claims-made basis medical malpractice insurance policy. Under this policy, medical malpractice claims reported by the Hospital to the insurance company during the policy period are covered; however, any medical malpractice claim that has been incurred but not reported (IBNR) to the insurance company during the policy period is not covered. The Hospital has recorded an estimated liability for reported and IBNR medical malpractice claims, which aggregated \$162,000 as of December 31, 2025 and 2024, and is included in other noncurrent liabilities in the accompanying consolidated balance sheets. Management believes that the estimated liability for reported and IBNR medical malpractice claims is adequate; however, the establishment of an estimated liability for reported and IBNR medical malpractice claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact the Hospital's reported results of operations in future periods.

Self-insured health and dental claims – The Hospital is self-insured for health and dental benefits provided to its employees (and employees' eligible family members) for the year ended December 31, 2024. As of June 1, 2025, the Hospital is only self-insured for medical benefits but fully insured for vision and dental benefits. In conjunction with the self-insured health plan, the Hospital purchases stop-loss insurance, which generally limits the Hospital's liability to \$125,000 per covered individual per year. Such benefits are provided through the Santiam Memorial Hospital Health Plan (the Health Plan) (a revocable trust fund), which is administered by a third-party administrator. The provision and accrual for estimated claims include estimates of the ultimate costs for both reported claims and IBNR claims and are based upon the estimated costs of settlement. As of December 31, 2025 and 2024, the Hospital has recorded estimated liabilities for reported and IBNR employee health and dental claims aggregating approximately \$1,450,000 and \$1,362,000, respectively, which are included in other accrued liabilities in the accompanying consolidated balance sheets. Management believes that these estimated liabilities are adequate to cover any related potential losses; however, the establishment of estimated liabilities for IBNR health and dental claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact the Hospital's reported results of operations in future periods. The Hospital's consolidated financial statements do not include the accounts of the Health Plan, as such accounts are not significant to the Hospital's consolidated financial statements.

Risk management – In the ordinary course of business, the Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; cyber-attacks; pandemics; errors and omissions; employee injuries and illnesses; and natural disasters. However, Management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the years ended December 31, 2025 and 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 consolidated financial position or results of operations.

The Hospital's grant and contract funding is subject to various risks, including changes in government policy and potential executive orders issued by the current federal administration. These recent executive orders may result in modifications, delays, or cancellations of such grant and contract funding that could adversely impact the Hospital's ability to fulfill its commitments under existing grants and contracts. 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 changes in net assets 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.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

Note 11 – Fair Value Measurements

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

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

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

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

Following is a description of the valuation techniques used for assets measured at fair value. There have been no changes in the techniques used at December 31, 2025 and 2024.

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

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

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

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

Notes to Consolidated Financial Statements

As of December 31, 2025 and 2024, the Hospital's financial assets measured at fair value on a recurring basis were as follows:

	Level 1	Level 2	Level 3	Total
2025				
Mutual Funds	\$ 551,752	\$ -	\$ -	\$ 551,752
Exchange Traded Funds	705,278	-	-	705,278
Money Market Funds	2,329,114	-	-	2,329,114
	<u>\$ 3,586,144</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,586,144</u>
2024				
Mutual Funds	\$ 422,423	\$ -	\$ -	\$ 422,423
Exchange Traded Funds	627,073	-	-	627,073
Money Market Funds	2,173,246	-	-	2,173,246
	<u>\$ 3,222,742</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,222,742</u>

Note 12 – Subsequent Events

On January 19, 2026, Santiam Hospital & Clinics announced their plan to pursue formal affiliation with Salem Health Hospitals and Clinics (SHHC), an Oregon nonprofit corporation. The organizations have signed an affiliation agreement where Santiam Hospital & Clinics will become a part of SHHC and SHHC will become the sole corporate member of Santiam (including the Foundation). The affiliation will require final approval by the state regulator at the Oregon Health Authority. As of the date of the audited financial statements, there has been no formal approval from the Oregon Health Authority.

Supplementary Information

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Summary of Operations (Unaudited)
Years Ended December 31, 2025 and 2024

	2025 (Unaudited)			2024 (Unaudited)			2025 as Compared to 2024	
	Amount	Per Adjusted Patient Day	% of Total Revenue	Amount	Per Adjusted Patient Day	% of Total Revenue	Increase (Decrease)	% Increase (Decrease)
Revenue								
Net patient care service revenue	\$ 145,924,612	\$ 4,773	95%	\$124,739,288	\$ 5,024	92%	\$ 21,185,324	17%
Government grant revenue	1,357,794	44	1%	2,803,679	113	2%	(1,445,885)	-52%
Other revenue	5,729,546	187	4%	3,803,259	153	3%	1,926,287	51%
Net assets released from restrictions – satisfaction of program restrictions	368,343	12	0%	4,061,616	164	3%	(3,693,273)	-91%
Total revenue	153,380,295	5,017	100%	135,407,842	5,454	100%	17,972,453	13%
Expenses								
Salaries and benefits	83,540,584	2,732	54%	69,138,693	2,785	51%	14,401,891	21%
Other operating departments' expenses	34,564,283	1,131	23%	30,455,128	1,227	22%	4,109,155	13%
Other service departments' expenses	2,500,327	82	2%	2,258,003	91	2%	242,324	11%
Other expenses	17,225,971	563	11%	14,772,208	595	11%	2,453,763	17%
Interest	1,009,800	33	1%	1,163,965	47	1%	(154,165)	-13%
Depreciation	5,252,483	172	3%	4,380,176	176	3%	872,307	20%
Total expenses	144,093,448	4,713	94%	122,168,173	4,921	90%	21,925,275	18%
Operating income (loss)	<u>\$ 9,286,847</u>	<u>\$ 304</u>	<u>6%</u>	<u>\$ 13,239,669</u>	<u>\$ 533</u>	<u>10%</u>	<u>\$ (3,952,822)</u>	<u>-30%</u>
Total patient days, excluding newborns and swing beds		<u>5,156</u>			<u>4,333</u>			
Total adjusted patient days, excluding newborns and swing beds		<u>30,573</u>			<u>24,828</u>			

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Gross Patient Care Service Revenue (Unaudited)
Years Ended December 31, 2025 and 2024

	2025 (Unaudited)			2024 (Unaudited)		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Daily patient revenue						
Nursing	\$ 11,636,481	\$ 2,771,657	\$ 14,408,138	\$ 9,693,091	\$ 2,860,976	\$ 12,554,067
Intensive care unit	2,535,887	76,804	2,612,691	2,873,509	44,247	2,917,756
Nursery	727,720	9,026	736,746	578,420	105	578,525
	<u>14,900,088</u>	<u>2,857,487</u>	<u>17,757,575</u>	<u>13,145,020</u>	<u>2,905,328</u>	<u>16,050,348</u>
Other nursing services						
Surgery and recovery room	13,383,840	77,859,313	91,243,153	11,131,649	67,455,774	78,587,423
Labor and delivery	3,761,735	782,112	4,543,847	3,067,559	620,887	3,688,446
Emergency	5,125,601	60,654,584	65,780,185	3,968,368	48,120,350	52,088,718
SHOTS *	510,124	3,190,748	3,700,872	269,102	2,274,674	2,543,776
	<u>22,781,300</u>	<u>142,486,757</u>	<u>165,268,057</u>	<u>18,436,678</u>	<u>118,471,685</u>	<u>136,908,363</u>
Other professional services						
Laboratory	4,130,413	21,179,038	25,309,451	3,658,551	18,873,574	22,532,125
Radiology	4,504,150	49,951,788	54,455,938	3,464,797	43,273,265	46,738,062
Pharmacy	4,641,570	11,055,040	15,696,610	4,407,417	9,812,378	14,219,795
Hospitalists	766,597	1,468,435	2,235,032	1,573,981	435,851	2,009,832
Anesthesiology	443,292	5,156,976	5,600,268	971,609	3,714,405	4,686,014
Respiratory therapy	5,056,610	3,655,970	8,712,580	5,204,919	3,792,441	8,997,360
Physical therapy	644,392	676,280	1,320,672	578,813	680,693	1,259,506
Nutritional therapy	-	140,532	140,532	-	119,943	119,943
Ambulance	-	5,966,769	5,966,769	-	5,229,798	5,229,798
Neurology	12,108	2,943,173	2,955,281	6,333	2,591,925	2,598,258
Clinics	-	37,793,247	37,793,247	-	33,444,097	33,444,097
	<u>20,199,132</u>	<u>139,987,248</u>	<u>160,186,380</u>	<u>19,866,420</u>	<u>121,968,370</u>	<u>141,834,790</u>
Total Gross Patient Care Service Revenue	<u>\$ 57,880,520</u>	<u>\$ 285,331,492</u>	<u>\$ 343,212,012</u>	<u>\$51,448,118</u>	<u>\$ 243,345,383</u>	<u>\$ 294,793,501</u>

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

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Operating Departments' Expenses (Unaudited)
Years Ended December 31, 2025 and 2024

	2025 (Unaudited)			2024 (Unaudited)		
	Salaries and Benefits	Other	Total	Salaries and Benefits	Other	Total
Daily patient revenue						
Nursing	\$ 9,829,200	\$ 1,164,320	\$ 10,993,520	\$ 8,680,524	\$ 1,109,493	\$ 9,790,017
Intensive care unit	660,080	611,430	1,271,510	522,759	529,104	1,051,863
Nursery	2,473	20,254	22,727	-	64,736	64,736
Medical/surgical	498,964	280,341	779,305	379,613	141,786	521,399
	<u>10,990,717</u>	<u>2,076,345</u>	<u>13,067,062</u>	<u>9,582,896</u>	<u>1,845,119</u>	<u>11,428,015</u>
Other nursing services						
Surgery and recovery room	6,048,612	9,747,097	15,795,709	4,571,377	7,960,089	12,531,466
Labor and delivery	2,833,288	2,119,430	4,952,718	2,276,652	1,114,753	3,391,405
Emergency	6,662,636	3,182,358	9,844,994	3,576,427	3,891,155	7,467,582
SHOTS *	988,896	136,154	1,125,050	768,192	73,182	841,374
	<u>16,533,432</u>	<u>15,185,039</u>	<u>31,718,471</u>	<u>11,192,648</u>	<u>13,039,179</u>	<u>24,231,827</u>
Other professional services						
Laboratory	3,139,244	3,126,722	6,265,966	3,108,955	2,945,410	6,054,365
Radiology	4,725,511	1,770,355	6,495,866	3,896,695	1,346,026	5,242,721
Pharmacy	2,734,195	4,354,951	7,089,146	2,195,736	5,112,876	7,308,612
Hospitalists	1,650,377	858,114	2,508,491	1,606,845	823,954	2,430,799
Anesthesiology	776,291	2,287,365	3,063,656	1,298,118	1,118,193	2,416,311
Respiratory therapy	1,389,502	288,653	1,678,155	1,292,564	126,876	1,419,440
Physical therapy	-	403,746	403,746	-	367,456	367,456
Ambulance	1,847,556	427,384	2,274,940	1,609,409	397,550	2,006,959
Clinics	24,281,962	3,785,609	28,067,571	22,244,625	3,332,489	25,577,114
	<u>40,544,638</u>	<u>17,302,899</u>	<u>57,847,537</u>	<u>37,252,947</u>	<u>15,570,830</u>	<u>52,823,777</u>
Total operating departments' expenses	<u>\$ 68,068,787</u>	<u>\$ 34,564,283</u>	<u>\$ 102,633,070</u>	<u>\$ 58,028,491</u>	<u>\$ 30,455,128</u>	<u>\$ 88,483,619</u>

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

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Service Departments' Expenses and Administrative and General Expenses (Unaudited)
Years Ended December 31, 2025 and 2024

	2025 (Unaudited)			2024 (Unaudited)		
	Salaries, Benefits, and Payroll Taxes	Other	Total	Salaries, Benefits, and Payroll Taxes	Other	Total
Service departments' expenses						
Medical records	\$ 2,351,756	\$ 102,224	\$ 2,453,980	\$ 2,032,270	\$ 38,668	\$ 2,070,938
Dietary and cafeteria	1,123,352	714,990	1,838,342	889,391	653,988	1,543,379
Operation and maintenance of plant	618,921	1,297,335	1,916,256	566,204	1,265,285	1,831,489
Environmental services	1,333,980	192,025	1,526,005	948,281	137,766	1,086,047
Laundry and linen	-	193,753	193,753	-	162,296	162,296
Total Service Departments' Expenses	<u>\$ 5,428,009</u>	<u>\$ 2,500,327</u>	<u>\$ 7,928,336</u>	<u>\$ 4,436,146</u>	<u>\$ 2,258,003</u>	<u>\$ 6,694,149</u>
		2025	2024			
Administrative and general expenses						
Salaries and wages		\$ 5,887,976	\$ 4,750,794			
Employee benefits		3,446,777	1,351,521			
Payroll taxes		400,775	328,545			
Provider tax expense		6,191,876	4,777,147			
Santiam Canyon Wildfire Relief Fund distributions		308,260	243,196			
Professional fees		2,539,282	2,069,785			
Community relations		1,464,651	1,244,290			
Office supplies and rental		247,456	147,123			
Insurance and bonding		311,011	389,129			
Electronic health records training and consulting		25,008	52,752			
Telephone		327,161	289,150			
Physician		22,968	38,851			
Education		103,025	69,154			
Other		5,993,533	5,694,827			
Total Administrative and General Expenses		<u>\$ 27,269,759</u>	<u>\$ 21,446,264</u>			

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Santiam Memorial Hospital, dba Santiam Hospital

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Santiam Memorial Hospital (an Oregon nonprofit corporation) and its subsidiaries, collectively doing business as (dba) "Santiam Hospital" (the Hospital), which comprise the consolidated balance sheet as of December 31, 2025, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 7, 2026.

Report on 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2025-001, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Hospital's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Hospital's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly US, LLP

Portland, Oregon
April 7, 2026

Report of Independent Auditors on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
Santiam Memorial Hospital, dba Santiam Hospital

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Santiam Memorial Hospital's (an Oregon nonprofit corporation) and its subsidiaries, collectively doing business as (dba) "Santiam Hospital" (the Hospital), compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Hospital's major federal program for the year ended December 31, 2025. The Hospital's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2025.

Basis for Opinion on the Major Federal Program

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

We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Hospital's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Hospital as of and for the year ended December 31, 2025, and have issued our report thereon dated April 7, 2026, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly US, LLP

Portland, Oregon
April 7, 2026

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2025

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Grant Number	Pass Through to Subrecipients	Federal Expenditures
U.S. Department of Housing and Urban Development				
Section 242 – Mortgage Insurance for Hospitals	14.128	n/a	\$ -	\$18,396,573
Community Development Block Grant Disaster Recovery	14.228	n/a	-	19,465
Total U.S. Department of Housing and Urban Development			-	18,416,038
U.S. Department of the Treasury				
Pass-Through Program from Oregon Health Authority:				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	178802	-	79,875
Total U.S. Department of Treasury			-	79,875
U.S. Department of Health and Human Services				
Pass-through Program from OCHIN:				
Community Health Worker Training Program	93.516	unknown	-	14,744
Pass-through Program from Oregon Health Authority:				
Health Security, Preparedness, and Response Program	93.889	n/a	-	14,065
Total U.S. Department of Health and Human Services			-	28,809
U.S. Department of Homeland Security				
Federal Emergency Management Agency				
Pass-through Program from Oregon Department of Emergency Management				
Nonprofit Security Grant Program	97.008	23-063, 23-064, 23-065	-	165,150
Total U.S. Department of Homeland Security			-	165,150
Total Expenditures of Federal Awards			\$ -	\$18,689,872

See accompanying notes to schedule of expenditures of federal awards.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2025

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Santiam Memorial Hospital (an Oregon nonprofit corporation) and its subsidiaries, collectively doing business as (dba) "Santiam Hospital" (the Hospital), under programs of the federal government for the year ended December 31, 2025. The information in the Schedule is presented in accordance with the requirements of Title 2, *U.S. Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to, and does not, present the consolidated financial position, results of operations, changes in net assets, or cash flows of the Hospital.

The Hospital's reporting entity is defined in Note 1 of the consolidated financial statements. All federal awards from federal agencies are included in the Schedule. The Schedule includes the government grant income of the Hospital with the Tax Identification Number of 93-0415219.

Note 2 – Summary of Significant Accounting Policies

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

Note 3 – Indirect Cost Rate

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

Note 4 – Loan Guarantee Program

The United States Department of Housing and Urban Development has insured certain mortgage loan borrowings undertaken by the Hospital in connection with capital projects and has imposed continuing compliance requirements. The balance of the insured loan and the related transactions are reported in the Hospital's basic consolidated financial statements. The guaranteed loan was fully drawn down in December 2014 and remains outstanding as of December 31, 2025. The balance of the loan outstanding as of December 31, 2025, consisted of:

Program Name	Section 242 – Mortgage Insurance for Hospitals
Federal Assistance Listing Number	14.128
Loans outstanding as of December 31, 2024	\$ 18,396,573
Less: loan principal repaid	<u>(1,103,926)</u>
Loans outstanding as of December 31, 2025	<u><u>\$17,292,647</u></u>

See schedule of expenditures of federal awards.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Schedule of Findings and Questioned Costs
Year Ended December 31, 2025

Note 5 – Noncash Assistance

The Hospital did not receive any noncash assistance during the year ended December 31, 2025.

See schedule of expenditures of federal awards

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Schedule of Findings and Questioned Costs
Year Ended December 31, 2025

Section I— Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP

unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes **X** no
- Significant deficiency(ies) identified? **X** yes _____ none reported

Noncompliance material to financial statements noted?

_____ yes **X** no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes **X** no
- Significant deficiency(ies) identified? _____ yes **X** none reported

Type of auditor's report issued on compliance for major federal programs:

unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ yes **X** no

Identification of major federal programs:

Assistance Listing No. 14.128 – U.S. Department of Housing and Urban Development, Section 242 – Mortgage Insurance for Hospitals

Dollar threshold used to distinguish between type A and type B programs:

\$1,000,000

Auditee qualified as low-risk auditee?

X yes _____ no

Section II—Financial Statement Findings

FINDING 2025-001 – Inadequate Controls Over Terminations and Segregation of Duties

Criteria: Effective internal controls should be established and maintained over user access to critical systems, including Active Directory, Premier, Epic, and Paycom. These controls should include timely removal of access upon employee termination, formal assessment of segregation of duties conflicts within assigned roles and permissions, and retention of documentation evidencing performance of these controls.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Schedule of Findings and Questioned Costs
Year Ended December 31, 2025

Context: Management has not fully designed and implemented effective controls over user access administration and segregation of duties for key systems mentioned above. Specifically:

- For one of the seven terminated employees selected for testing, Active Directory access was not disabled within five business days of termination.
- Management has not designed and implemented a control to assess whether permissions embedded within roles assigned to users create segregation of duties conflicts.
- The HR Director and COO each had administrative-level access to Paycom, which allowed the ability to process payroll and grant or remove user access. Management remediated this matter in March 2026 by removing full administrative privileges and limiting access to permissions required for routine job responsibilities.

Cause: These deficiencies resulted from management not establishing and fully implementing formal policies, procedures, and monitoring controls over termination and deprovisioning and segregation of duties.

Effect: The absence of effective user access and segregation of duties controls increases the risk of unauthorized access to systems and data, inappropriate transactions or changes to sensitive information, and fraud or error occurring without timely detection. Delayed removal of access for terminated employees increases the risk that former employees could retain access after separation from employment.

Recommendation: We recommend that the Hospital:

- Establish and document procedures to ensure terminated employees are removed from all applicable systems within a defined timeframe, with retained evidence of deprovisioning; and
- Design and implement a formal segregation of duties review process to identify and address incompatible access within assigned roles and permissions.

View of responsible officials: Management agrees with the recommendation

Section III—Federal Award Findings and Questioned Costs

Findings and questioned costs relating to federal awards	none
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Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital

April 7, 2026

In accordance with OMB Uniform Guidance, we have provided below Santiam Memorial Hospital's response and corrective action plan addressing the finding in the "Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards for the fiscal year ending December 31, 2025.

FINDING 2025-001 – Inadequate Controls Over Terminations and Segregation of Duties

Management agrees with the finding and the auditor's recommendation.

Contact Person Responsible for Corrective Action:

Yolanda Sams
Information Technology Director
ysams@santiamhospital.org
(503) 783-9320

Corrective Action Planned:

Management will remediate the noted deficiencies by (1) implementing a formal termination deprovisioning control that requires disabling Active Directory and removing access from applications such as Premier, Epic, and Paycom upon immediate separation, with an IT ticket/workflow, secondary verification, and retained evidence; and (2) designing and implementing a segregation of duties (SOD) review process to evaluate permissions embedded within user roles, identify incompatible access, and document mitigation (role changes, compensating controls, or approvals). Management will update related policies and procedures and establish ongoing monitoring with periodic reporting and exception tracking until controls operate effectively.

Anticipated Completion Date:

Corrective action plan will be implemented by end of Q3 2026.

Sincerely,



Yolanda Sams
Information Technology Director

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Summary Schedule of Prior Audit Findings

**FINDING 2024-001 – Significant Deficiency in Internal Control over Financial Reporting –
Completeness of the SEFA**

Condition:	During the review of the Schedule of Expenditures of Federal Awards (SEFA) for the year ended December 31, 2024, it was identified that a federal grant was omitted from the SEFA. This omission represents a significant deficiency in the entity's internal controls over financial reporting and compliance with federal regulations. The failure to include this grant not only affects the accuracy of the SEFA but also poses a risk of non-compliance with federal reporting requirements, which could lead to potential penalties or loss of funding.
Recommendation:	Baker Tilly recommended that the Hospital implement a robust review process to ensure that all federal grants are accurately tracked and reported in the SEFA.
Status of Finding:	Resolved.

FINDING 2024-002 – Inadequate Controls Over User Access and Segregation of Duties

Criteria:	Effective internal controls should be established to manage user access to critical systems, including Active Directory, Premier, Epic, and Paycom. The Hospital must implement periodic reviews of user access to ensure appropriateness and compliance with segregation of duties principles. Documentation of user deprovisioning is essential to verify that access is terminated in a timely manner.
Condition:	Management has not implemented controls to review user access for critical systems, including Active Directory, Premier, Epic, and Paycom. Specifically: • There is no periodic review process for user access rights. • The roles assigned to users have not been assessed for potential segregation of duties conflicts. • The COO, CFO, and Payroll Coordinator all possess admin-level access to Paycom, enabling them to process payroll and manage user access without oversight. • Documentation related to the deprovisioning of users is not retained, making it impossible to verify the timeliness of access removal.

Santiam Memorial Hospital and Subsidiaries dba Santiam Hospital
Summary Schedule of Prior Audit Findings

Recommendation:	Baker Tilly recommended that the Hospital implement a periodic review process for user access, implement controls to access segregation of duties confliction, and establish a formal process for documenting the deprovisioning of users, including retention of records that confirm timely access removal.
Status of Finding:	Not fully resolved. Management established an AD access review policy in Q2 2025 and began implementing it within Q3 2025. Management also staffed a new Paycom System Administrator in Q2 2025, and he was able to establish an audit review process and then began implementing it in early Q4 2025. In addition, the Materials Management Director has been working to establish a similar process for Premier starting in Q4 2025 but is planning to implement fully by the end of Q2 2026. However, to fully resolve this deficiency, Management will be creating user access matrixes for each application and create/update policies to support terminated user access removal. Target is to complete remaining actions by end of Q3 2026.