Reports of Independent Auditors
and Financial Statements

Bay Area Health District, dba Bay Area Hospital

June 30, 2023 and 2022

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Table of Contents

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinions

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

Prior Period Financial Statements

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

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

Supplementary Information

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

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

Report on Other Legal and Regulatory Requirements

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

Moss Adams LLP

Portland, Oregon
November 27, 2023

Management's Discussion and Analysis

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

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

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

Financial Highlights

- The Hospital's net position of approximately $93.8 million as of June 30, 2023, decreased by approximately $35.1 million (27.2%) during fiscal year 2023. This was down significantly from the loss of approximately $60.2 million (31.8%) during fiscal year 2022.

- In fiscal year 2023, actual gross patient service revenue was more than budgeted gross patient service revenue by approximately $28.4 million (5.2%) and more than fiscal year 2022 by $14.2 million (2.5%)

- Net patient service revenue increased from fiscal year 2022 by approximately $24.4 million (13.5%). Disruptions in the Hospital's revenue cycle billing and collections process stemming from the installation of a new electronic health records system (EPIC system) that went live on June 19, 2021, directly lead to a slow-down in collections early in 2022. This ultimately resulted in significant write-downs of patient accounts receivable, as they were not billed and collected timely in fiscal year 2022. In fiscal year 2023 many improvements were recognized in the revenue cycle and additional cash collections bolstered the income statement.

- During fiscal year 2022, the Hospital expenses grew significantly from fiscal year 2021. Expenses stabilized in fiscal year 2023 and decreased by $2.2 million or 0.89% from the prior year. The largest expense increase was benefit expense due to market changes of the defined benefit expense.

- The Hospital reported operating losses of approximately $32.8 million and $60.5 million in fiscal years 2023 and 2022, respectively.

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

Using this annual report

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

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

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

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

The Statement of Cash Flows

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

The Hospital's net position

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

Table 1: Assets, liabilities, and net position

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

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

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

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

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

Operating results and changes in the Hospital's net position

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

Table 2: Operating results and changes in net position

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

See accompanying notes.

Operating loss

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

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

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

- Net patient service revenue was 13.5% higher in fiscal year 2023 as compared to fiscal year 2022 and only 0.80% lower than budget. Surgical case volumes decreased 8.8% from the prior year due to movement of eye procedures to the local ambulatory surgery center.

- Revenue cycle issues identified in fiscal year 2022 were worked on in fiscal year 2023 and fewer denials were seen in fiscal year 2023. The focus on improved revenue cycle also lead to better cash collections and approximately a 3.6% overall net collection rate increases from FY2022.

- Total salaries and benefits increased approximately $3.5 million (4.4%) in fiscal year 2023 as compared to fiscal year 2022 and approximately $3.9 million (4.9%) higher than budget due to settling the expired contract with United Food and Commercial Workers Union (UFCW) and planned increases due to the Oregon Nurses Association (ONA) settlement in the prior fiscal year. This increase in salaries and benefits expense was offset by a decreased expense in temporary (contract) labor of approximately $3.6 million (11.6%) as compared to fiscal year 2022.

- The Hospital currently has three unions with whom it must negotiate. As of June 30, 2023, approximately 50% of the Hospital's employees are covered under a collective bargaining agreement (CBA) with the UFCW, and the new contract expires in June 30, 2025. Approximately 31% of the Hospital's employees are covered under a CBA with the Oregon Nurses Association (ONA), which expires on June 30, 2024.

- Professional fees and purchased services expense decreased significantly (12.2%) primarily due to the decreased contract labor mentioned above, as well as the contributions made in fiscal year 2022 to the local physicians with their EPIC system.

- Depreciation and amortization expense rose slightly at approximately $12.1 million in fiscal year 2023 compared to approximately $12.0 million fiscal year 2022.

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

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

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

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

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

Nonoperating Revenue and Expenses

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

The Hospital's cash flows

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

Capital assets

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

Long-term debt

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

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

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

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

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

Other economic factors

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

Contacting the Hospital's financial management

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

Financial Statements

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

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

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

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

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

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

Use of estimates – The preparation of financial statements in accordance with GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, income, gains, expenses, and losses during the reporting period. Actual results could differ from those estimates.

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

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

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

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with remaining maturities of three months or less at the time of purchase by the Hospital, excluding investments (see Note 2).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- *Restricted net position* can include two components: *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by bond indentures, and *restricted nonexpendable net position* equals the principal portion of permanent endowments. As of June 30, 2023 and 2022, the Hospital had no significant *restricted net position*.

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

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

A significant portion of the Hospital's services is provided to Medicare, Medicaid, and Oregon Health Plan (OHP) patients under contractual arrangements. Inpatient acute care services rendered by the Hospital to Medicare and Medicaid program beneficiaries are generally reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors (i.e ., "Medicare severity-adjusted diagnosis related groups" or "MS-DRGs"). Such payments include a capital cost component and may be greater or less than the actual charges for services. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. Home health services related to Medicare beneficiaries are reimbursed under a prospective payment system methodology. Certain outpatient services related to Medicare and Medicaid beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after audits of the Hospital's annual cost reports by the Medicare fiscal intermediary and Medicaid. The Hospital's cost reports have been audited and final settled by the Medicare fiscal intermediary through June 30, 2018 and Medicaid through June 30, 2017.

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

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

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

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

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations to provide medical services to subscribing participants. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates based on the type of service delivered.

Charity care – The Hospital provides services to patients who meet the criteria of its charity care policy without charge or at amounts less than its established rates. The Hospital's criteria for the determination of charity care include the patient's - or the other responsible party's - annual household income, assets, credit history, existing debt obligations, and other indicators of the patient's ability to pay. Generally, uninsured or underinsured individuals with an annual household income at, or less than, 200% of the Federal Poverty Guidelines (the Guidelines) qualify for charity care under the Hospital's policy. In addition, the Hospital provides discounts on a sliding scale to uninsured individuals with an annual household income of between 200% and 450% of the Guidelines. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported as net patient service revenue (see Note 8).

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

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

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

In addition, the Hospital has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments to the Hospital related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to the Hospital. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to qualifying hospitals. Any such amounts received by the Hospital from OAHHS are reflected as a component of net patient service revenue in the accompanying statement of revenue, expenses, and changes in net position. Prepaid expenses and other current assets include approximately $3 million and $1.3 million of provider taxes receivable due from OAHHS as of June 30, 2023 and 2022, respectively, and other accrued liabilities include approximately $3 million and $1.3 million of provider taxes payable to OAHHS as of June 30, 2023 and 2022, respectively, in the accompanying statement of net position. Generally, the amount of annual receipts from OAHHS matches the annual amount of taxes paid.

Risk management – In the ordinary course of business, the Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; cyber-attacks; errors and omissions; employee injuries and illnesses; and natural disasters. However, Management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial insurance coverage in any of the past three years. The Hospital is self-insured for employee health care claims up to $250,000. Employee health care claims are accrued as the incidents which give rise to them become known. The provision and accrual for estimated employee health care claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are based upon the estimated cost of settlement. Management believes that adequate amounts have been included in accrued liabilities accrued in the accompanying financial statements to cover estimated employee health care claims.

Federal and state income taxes – The Hospital is a municipal corporation. In addition, the Internal Revenue Service (IRS) has issued a determination letter stating that the Hospital is exempt from federal income taxes under Section 501(c)(3) of the Code. Accordingly, only unrelated business income is subject to federal or state income taxes. It is Management's belief that none of the Hospital's activities have generated material unrelated business income; therefore, no provision for income taxes has been made in the accompanying financial statements.

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

Note 2 – Deposits and Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

	June 30, 2023					
	Mortgage-backed Securities	U.S. Government Agency Obligations	Corporate Obligations	U.S. Treasury Securities	Municipal Bonds	Total
Investment maturity						
Less than one year	$ -	$ -	$ 1,680,363	$ -	$ 544,677	$ 2,225,040
1-5 years	3,388,645	1,506,600	1,113,883	14,827,410	-	20,836,538
6-10 years	1,365,167	-	2,848,324	2,098,565	-	6,312,056
More than 10 years	21,202,289	-	139,785	-	-	21,342,074
Total	$ 25,956,101	$ 1,506,600	$ 5,782,355	$ 16,925,975	$ 544,677	$ 50,715,708

	June 30, 2022					
	Mortgage-backed Securities	U.S. Government Agency Obligations	Corporate Obligations	U.S. Treasury Securities	Municipal Bonds	Total
Investment maturity						
Less than one year	$ -	$ 1,773,086	$ 2,581,867	$ -	$ 935,866	$ 5,290,819
1-5 years	5,035,660	1,552,664	5,994,836	27,359,874	547,227	40,490,261
6-10 years	1,925,125	-	2,834,217	8,816,324	-	13,575,666
More than 10 years	27,194,540	-	-	-	-	27,194,540
Total	$ 34,155,325	$ 3,325,750	$ 11,410,920	$ 36,176,198	$ 1,483,093	$ 86,551,286

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

Note 3 – Patient Accounts Receivable

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

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

Note 4 – Capital Assets

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

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

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

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

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

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

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

	July 1, 2021	Additions	June 30, 2022
Lease right-of-use assets			
Buildings	$ 1,119,947	$ -	$ 1,119,947
Movable equipment	457,475	1,572,561	2,030,036
Total lease assets	1,577,422	1,572,561	3,149,983
Accumulated amortization			
Buildings	-	253,573	253,573
Movable equipment	-	253,567	253,567
Total accumulated amortization	-	507,140	507,140
Lease right-of-use assets, net	$ 1,577,422		$ 2,642,843

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

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

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

Note 6 – Long-term Obligations and Other Noncurrent Liabilities

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

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

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

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

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

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

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

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

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

Note 7 – Lease Obligation and Subscription Liabilities

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

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

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

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

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

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

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

Note 8 – Net Patient Service Revenue

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

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

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

Note 9 – The Defined Benefit Plan

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

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

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

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

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

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

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

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

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

1. Rate of return on the investment of present and future assets at 7.25% per year compounded annually,

2. Projected annual salary increases of 5.50%,

3. Projected increase in annual compensation limits of 3.00%,

4. Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection based on Scale MP-2021,

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

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

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

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

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

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

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

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

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

	1.0% Decrease (6.25%)	Current Rate (7.25%)	1.0% Increase (8.25%)
2023			
Net Pension Liability	$ 12,282,529	$ 7,133,416	$ 2,654,236

	1.0% Decrease (6.25%)	Current Rate (7.25%)	1.0% Increase (8.25%)
2022			
Net Pension Liability	$ 14,255,998	$ 8,910,885	$ 4,277,363

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
2023		
Differences between expected and actual experience	$ 38,990	$ -
Net difference between projected and actual earnings on Defined Benefit Plan assets	13,147,357	8,863,049
Total	$ 13,186,347	$ 8,863,049

	Deferred Outflows of Resources	Deferred Inflows of Resources
2022		
Differences between expected and actual experience	$ 65,365	$ -
Net difference between projected and actual earnings on Defined Benefit Plan assets	17,139,768	8,634,580
Assupmtion Changes	129,945	-
Total	$ 17,335,078	$ 8,634,580

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

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

Note 10 – Defined Contribution Pension Plans

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

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

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

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

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

Note 11 – Postemployment Health Care Plan

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

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

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

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

Active employees	742
Retired members	42
Total participants	784

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

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

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

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

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

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

	1.0% Decrease (2.54%)	Current Rate (3.54%)	1.0% Increase (4.54%)
2023			
Total OPEB liability	$ 1,740,790	$ 1,638,502	$ 1,544,527

	1.0% Decrease (1.16%)	Current Rate (2.16%)	1.0% Increase (3.16%)
2022			
Total OPEB liability	$ 3,134,703	$ 2,935,570	$ 2,751,446

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

	1.0% Decrease	Current Rate	1.0% Increase
2023			
Total OPEB liability	$ 1,548,204	$ 1,638,502	$ 1,741,854

	1.0% Decrease	Current Rate	1.0% Increase
2023			
Total OPEB liability	$ 2,739,828	$ 2,935,570	$ 3,161,757

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
2023		
Differences between expected and actual experience	$ (394,076)	$ -
Changes of assumptions or inputs	(898,777)	229,458
Contributions made subsequent to measurement date	-	169,549
Total	$ (1,292,853)	$ 399,007

	Deferred Outflows of Resources	Deferred Inflows of Resources
2022		
Differences between expected and actual experience	$ -	$ (34,713)
Changes of assumptions or inputs	296,860	(254,439)
Contributions made subsequent to measurement date	246,963	-
Total	$ 543,823	$ (289,152)

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

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

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

Note 12 – Commitments and Contingencies

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

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

Fiscal Years Ending June 30,	Amount
2024	$ 3,387,000
2025	3,387,000
2026	3,387,000
2027	3,387,000
2028	3,387,000
Total	$ 16,935,000

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

Based on an actuarial valuation, the Hospital has recorded an estimated liability for IBNR medical malpractice claims, which, along with an estimated liability for reported claims, aggregated to approximately $1,026,000 and $1,131,000 as of June 30, 2023 and 2022, respectively, and is included in other noncurrent liabilities in the accompanying statement of net position (see Note 6). Management believes that this estimated liability is adequate; however, the establishment of estimated liabilities for reported and IBNR medical malpractice claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact the Hospital's reported results of operations in future periods.

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

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

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

Note 13 – Other Related Parties

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

Note 14 – Fair Value Measurements

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

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

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

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

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

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

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

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

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

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Assets limited to use				
Mortgage-backed securities	$ -	$ 25,956,101	$ -	$ 25,956,101
U.S. Government agency obligations	-	1,506,600	-	1,506,600
Corporate obligations	-	5,782,355	-	5,782,355
U.S. Treasurey securities	16,925,975	-	-	16,925,975
Municipal bonds	-	544,677	-	544,677
Total	$ 16,925,975	$ 33,789,733	$ -	$ 50,715,708

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Assets limited to use				
Mortgage-backed securities	$ -	$ 34,155,325	$ -	$ 34,155,325
U.S. Government agency obligations	-	3,325,750	-	3,325,750
Corporate obligations	-	11,410,920	-	11,410,920
U.S. Treasurey securities	36,176,198	-	-	36,176,198
Municipal bonds	-	1,483,093	-	1,483,093
Total	$ 36,176,198	$ 50,375,088	$ -	$ 86,551,286

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

Supplementary Information

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

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

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

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

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

Actuarial cost method is individual entry age normal										
Rate of return on investments	7.25%	7.50%	7.25%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Projected annual salary increases	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
Projected increase in annual compensation lir	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

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

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

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

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

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

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

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

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

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

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

MOSSADAMS

Report of Independent Auditors Required by Oregon State Regulations

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

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

Compliance

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

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

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

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bay Area Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bay Area Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bay Area Hospital's internal control.

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

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

Purpose of this Report

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

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

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