Reports of Independent Auditors and
Financial Statements

Bay Area Health District,
dba Bay Area Hospital

June 30, 2025 and 2024

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinions

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

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

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

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

Supplementary Information

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

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

Report on Other Legal and Regulatory Requirements

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

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

Management's Discussion and Analysis

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

Financial Highlights

- The Hospital's net position was $63.7 million and $88.8 million as of June 30, 2025 and 2024, respectively, a decrease of $25.1 reflecting net loss for fiscal year 2025.

- Gross patient service revenue of $739.7 million in fiscal year 2025 was lower than budget by $22.3 million (3.0%) and more than fiscal year 2024 by $25.5 million (3.6%). Net patient service revenue of $235.5 million in fiscal year 2025 was lower than budget by $27.6 million (10.6%) and lower than fiscal year 2024 by $4.9 million (2.0%). Contributing factors to fiscal year 2025's underperformance against budget and the prior year include an increase in charity care and bad debt allowances of $2.3 million year over year

- Operating expenses were $265.2 million (110.4% of total operating revenue) and $250.1 million (102.7% of total operating revenue) for fiscal years 2025 and 2024, respectively.

- The Hospital reported operating losses of $25.0 million and $6.7 million for fiscal years 2025 and 2024, respectively.

- Total net nonoperating revenue (expense) was ($0.1) million and $1.7 million for fiscal years 2025 and 2024, respectively. The largest components of nonoperating revenue and expense are interest income from investments and interest expense on term debt. During fiscal year 2025 strong investment returns resulted in interest income of $2.2 million, up $0.5 million from fiscal 2024. Interest expense of $2.4 million offset these gains and reflects increases in bank interest charges on term debt due to the Hospital remaining out of compliance with its financial covenants through fiscal year 2025.

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

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

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

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

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

Table 1: Assets, liabilities, and net position

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

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

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

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

Table 2: Operating results and changes in net position

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

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

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

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

- Salaries and benefits increased by $10.7 million in fiscal year 2025 and increased by $5.6 million in fiscal year 2024. In 2025, salaries and benefits was up 11.1% on a common-size basis as a percent of total operating revenue. Salaries and benefits does not include costs of contract labor, such as locums tenens physicians, agency nurses and technicians, and other contract roles. These costs were $20.8 million and $23.8 million for fiscal year 2025, respectively. The Hospital defines "compensation costs percentage" as the fraction with salaries and benefits plus contract labor as the numerator, and net patient service revenues less supplemental payments related to the Oregon provider tax as the denominator. The compensation costs percentage increased to 65.3% in fiscal year 2025 from 60.5% in fiscal year 2024.

- The Hospital currently has three unions with whom it negotiates. As of June 30, 2025, approximately 51% of the Hospital's employees are covered under a collective bargaining agreement (CBA) with the UFCW, on a contract expiring June 30, 2025. Approximately 30% of the Hospital's employees are covered under a CBA with the Oregon Nurses Association (ONA), which expires on June 30, 202 and was renewed through September 30, 2026. The teams subsequently extended both agreements. Approximately 2% of the Hospital's employees are covered under a CBA with the Teamsters.

- Supplies and other expenses increased $1.0 million to $64.0 million in fiscal year 2025 from $63.0 million in fiscal year 2024, which was an increase of $5.6 million in fiscal year 2024.

- Professional fees and purchased services expense increased $4.2 million to $66.4 million in fiscal year 2025. Contract labor costs included in professional fees and purchased services decreased $3.0 million during fiscal year 2025 compared to fiscal year 2024, which was offset by $7.2 million in consulting and outsourcing fees related to an unconsummated sale transaction with a third party hospital operator. This transaction was subsequently abandoned. In fiscal year 2024, professional fees and purchased services expense decreased $0.6 million to $62.2 million.

- Depreciation and amortization expense decreased by $1.5 million to $10.2 million in fiscal year 2025 compared to $11.7 million in fiscal year 2024, which was a decrease of $0.4 million from fiscal year 2023.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other economic factors – The Hospital is Coos County's largest employer, followed by The Mill Casino, the local school districts, and 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 5.9% in September 2025. The pre-pandemic rate was 3.8% in November 2019. In June 2023, the Oregon International Port of Coos Bay obtained $40 million from the Oregon Legislature to dredge and expand the existing waterway to accommodate large container ships. In June 2025 that funding commitment increased to $100 million. The Hospital continues to closely monitor external forces that affect the Hospital's financial position to make timely operational changes.

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

Financial Statements

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

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 18 and 19. These activities are excluded from the Hospital's other financial statements because the Hospital cannot use these assets to finance its operations. The Hospital is responsible for ensuring that the assets reported in this fiduciary fund are used for their intended purposes.

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

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

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

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

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

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

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

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

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with remaining maturities of three months or less at the time of purchase by the Hospital, excluding investments (see Note 3).

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

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

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

	2025	2024
Medicare	45%	38%
Commercial insurance	17%	30%
Medicaid and Oregon Health Plan (OHP)	27%	22%
Other negotiated contracts	2%	3%
Self-pay	9%	7%
	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) 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 that are capitalized in accordance with GASB standards (see below) are recorded separately in the accompanying statements of net position and are amortized over the lease and/or contract terms. Such amortization is included in depreciation and amortization expense in the accompanying financial statements. Depreciation of assets in construction in progress begins when such assets are placed in service. Useful lives of depreciable assets are based on guidelines published by the American Hospital Association.

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

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

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

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

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

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

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

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

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

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

- *Restricted net position* can include two components: *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by bond indentures, and *restricted nonexpendable net position* equals the principal portion of permanent endowments. As of June 30, 2025 and 2024, the Hospital had no restricted net position.

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

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

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

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

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

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

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

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

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

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

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

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

In addition, the Hospital has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments to the Hospital related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to the Hospital. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to qualifying hospitals. Any such amounts received by the Hospital from OAHHS are reflected as a component of net patient service revenue in the accompanying statement of revenue, expenses, and changes in net position. Prepaid expenses and other current assets include approximately $2,700,000 and $3,500,000 of provider taxes receivable due from OAHHS as of June 30, 2025 and 2024, respectively, and other accrued liabilities include approximately $2,800,000 and $3,500,000 of provider taxes payable to OAHHS as of June 30, 2025 and 2024, respectively, in the accompanying statement of net position. Generally, the amount of annual receipts from OAHHS matches the annual amount of taxes paid.

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

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

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

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

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

- GASB Statement No. 101, “Compensated Absences” – This statement establishes new standards for accounting and financial reporting for compensated absences, which include vacation leave, sick leave and other types of paid time off. The Hospital evaluated the impact of this implementation on beginning net position. No adjustment to beginning net position was required.

- GASB Statement No. 102, “Certain Risk Disclosures” – This statement establishes new standards for disclosing essential information about risks related to a governments vulnerabilities due to certain concentrations or constraints. No viable threats to assets or obligations were identified.

Note 2 – Going Concern and Management's Plans

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

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

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

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

Note 3 – Deposits and Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

	June 30, 2025				
	Mortgage-backed Securities	U.S. Government Agency Obligations	Corporate Obligations	U.S. Treasury Securities	Total
Investment maturity					
Less than one year	$ -	$ -	$ -	$ -	$ -
1-5 years	7	-	-	7,532,891	7,532,898
6-10 years	-	1,994,200	-	3,599,164	5,593,364
More than 10 years	147,544	-	-	-	147,544
Total	$ 147,551	$ 1,994,200	$ -	$ 11,132,055	$ 13,273,806

	June 30, 2024				
	Mortgage-backed Securities	U.S. Government Agency Obligations	Corporate Obligations	U.S. Treasury Securities	Total
Investment maturity					
Less than one year	$ -	$ 1,533,927	$ 137,516	$ -	$ 1,671,443
1-5 years	2,773,565	-	1,981,512	15,185,900	19,940,977
6-10 years	1,266,286	-	2,031,107	2,039,864	5,337,257
More than 10 years	9,621,145	-	-	-	9,621,145
Total	$ 13,660,996	$ 1,533,927	$ 4,150,135	$ 17,225,764	$ 36,570,822

Note 4 – Patient Accounts Receivable

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

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

Note 5 – Capital Assets

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

	July 1, 2024	Additions/ Provisions	Disposals	Transfers	June 30, 2025
Depreciable capital assets					
Cost					
Land improvements	$ 2,344,681	$ -	$ -	$ -	$ 2,344,681
Buildings and improvements	104,398,275	-	(629,838)	-	103,768,437
Fixed equipment	8,789,692	-	-	1,948	8,791,640
Movable equipment	95,339,180	222,581	(411,431)	1,028,041	96,178,371
Total depreciable capital assets	210,871,828	222,581	(1,041,269)	1,029,989	211,083,129
Accumulated depreciation					
Land improvements	2,201,738	12,044	-	-	2,213,782
Buildings and improvements	54,220,692	2,962,636	(535,719)	-	56,647,609
Fixed equipment	7,280,683	310,205	-	-	7,590,888
Movable equipment	77,930,034	4,852,316	(321,774)	-	82,460,576
Total accumulated depreciation	141,633,147	8,137,201	(857,493)	-	148,912,855
Depreciable capital assets, net	69,238,681				62,170,274
Nondepreciable capital assets					
Land	1,138,426	-	(91,500)	-	1,046,926
Construction in progress	271,913	2,080,853	-	(1,029,989)	1,322,777
Total nondepreciable capital assets	1,410,339	$ 2,080,853	$ (91,500)	$ (1,029,989)	2,369,703
Capital assets, net	$ 70,649,020				$ 64,539,977

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

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

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

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

	July 1, 2024	Additions	Deletions	June 30, 2025
Lease right-of-use assets				
Buildings	$ 1,141,734	$ -	$ -	$ 1,141,734
Movable equipment	3,253,548	-	-	3,253,548
Total lease assets	4,395,282	-	-	4,395,282
Accumulated amortization				
Buildings	760,719	260,395	-	1,021,114
Movable equipment	1,346,839	611,651	-	1,958,490
Total accumulated amortization	2,107,558	$ 872,046	$ -	2,979,604
Lease right-of-use assets, net	$ 2,287,724			$ 1,415,678

	July 1, 2023	Additions	Deletions	June 30, 2024
Lease right-of-use assets				
Buildings	$ 1,141,734	$ -	$ -	$ 1,141,734
Movable equipment	3,253,548	-	-	3,253,548
Total lease assets	4,395,282	-	-	4,395,282
Accumulated amortization				
Buildings	507,146	253,573	-	760,719
Movable equipment	762,084	584,755	-	1,346,839
Total accumulated amortization	1,269,230	$ 838,328	$ -	2,107,558
Lease right-of-use assets, net	$ 3,126,052			$ 2,287,724

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

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

	July 1, 2024	Additions	Deletions	June 30, 2025
Subscription assets	$ 14,303,416	$ -	$ (10,783,878)	3,519,538
Accumulated amortization	7,135,459	$ 1,208,574	$ (6,395,090)	1,948,943
Subscription assets, net	$ 7,167,957			$ 1,570,595

	July 1, 2023	Additions	Deletions	June 30, 2024
Subscription assets	$ 13,477,932	$ 825,484	$ -	$ 14,303,416
Accumulated amortization	5,126,744	$ 2,008,715	$ -	7,135,459
Subscription assets, net	$ 8,351,188			$ 7,167,957

Amortization expense of subscription assets was approximately $1,208,000 and $2,009,000 for the years ended June 30, 2025 and 2024, respectively.

During the year ended June 30, 2025, the Hospital terminated its existing subscription-based agreement for its accounting software and entered a new one-year arrangement. As a result, the related SBITA asset and corresponding liability were derecognized in accordance with applicable accounting guidance. Subsequent to year-end, the Hospital executed a new three-year contract for the same software at an annual cost of approximately $950,000.

Note 7 – Long-term Obligations and Other Noncurrent Liabilities

A schedule of changes in the Hospital's long-term obligations and other noncurrent liabilities for the years ended June 30, 2025 and 2024, is as follows:

	July 1, 2024	Additions	Reductions	June 30, 2025	Amounts Due Within One Year	Amounts Due After One Year
Long-term obligations						
Note payable	$ 46,641,959	$ -	$ 1,576,090	$ 45,065,869	$ 45,065,869	$ -
Total long-term obligations	46,641,959	-	1,576,090	45,065,869	45,065,869	-
Other noncurrent liabilities						
Net pension liability (see Note 10)	3,652,580		3,021,616	630,964	-	630,964
Other post-employment benefits (see Note 12)	1,634,086	-	146,106	1,487,980	-	1,487,980
Estimated medical malpractice claims (see Note 13)	931,000	-	50,000	881,000	-	881,000
Other	445,847	127,679	-	573,526	-	573,526
Total other non-current liabilities	6,663,513	127,679	3,217,722	3,573,470	-	3,573,470
Total non-current liabilities	$ 53,305,472	$ 127,679	$ 4,793,812	$ 48,639,339	$ 45,065,869	$ 3,573,470

	July 1, 2023	Additions	Reductions	June 30, 2024	Amounts Due Within One Year	Amounts Due After One Year
Long-term obligations						
Note payable	$ 47,879,500	$ 146,949	$ 1,384,490	$ 46,641,959	$ 1,576,090	$ 45,065,869
Total long-term obligations	47,879,500	146,949	1,384,490	46,641,959	1,576,090	45,065,869
Other noncurrent liabilities						
Medicare accelerated payments	-	-	-	-	-	-
Net pension liability (see Note 10)	7,133,416	-	3,480,836	3,652,580	-	3,652,580
Other post-employment benefits (see Note 12)	1,638,502	-	4,416	1,634,086	-	1,634,086
Estimated medical malpractice claims (see Note 13)	1,026,000	-	95,000	931,000	-	931,000
Other	428,888	16,959	-	445,847	-	445,847
Total other non-current liabilities	10,226,806	16,959	3,580,252	6,663,513	-	6,663,513
Total non-current liabilities	$ 77,916,322	$ 163,908	$ 4,964,742	$ 53,305,472	$ 1,576,090	$ 51,729,382

In December 2020, the Hospital entered into a $50,000,000 term loan agreement (the Note Payable) with Bank of the West (BOTW), which is now operating as Bank of Montreal (BMO). The proceeds of the Note Payable were used to help finance a new electronic health records (EHR) system (the EHR System) and a new human resources and financial system, and to repay the Hospital's pre-existing debt to Umpqua Bank. Under terms of the Note Payable, beginning in February 2022, the Hospital was required to make payments in monthly installments of principal and interest of approximately $220,000, with the remaining outstanding principal (currently estimated to be approximately $45,065,869) and accrued interest due in December 2030. The initial interest rate on the Note Payable was 2.34%, and the rate is adjusted quarterly based on the Hospital's most recent debt service coverage ratio for the twelve-month period then ended. The Note Payable is secured by a pledge of the Hospital's revenues. The Note Payable may be prepaid in whole or in part, with a prepayment penalty. The Note Payable includes requirements to meet certain financial and operating covenants.

The Hospital and BOTW entered into a series of forbearance agreements in fiscal year 2023 and agreed to modify loan terms at the end of fiscal year 2023. The closing of this agreement occurred in October 2023 and modified the terms of the loan as to allow the Hospital to exit default at the end of fiscal year 2023. The Hospital agreed to an increased interest rate ranging from 4.00% to 5.00% based off of the debt service coverage ratio of the Hospital (4% as of June 30, 2025), pledged real estate collateral and agreed to more frequent financial reporting. As of June 30, 2025, the Hospital has not met several of their covenants and as a result is subject to default provisions. Under default, the default rate is a rate of interest per annum equal to the sum of the Alternate Base Rate (ABR) in effect on such day plus three percent. ABR is defined as a fluctuating rate of interest per annum equal to the greater of the prime rate or the federal funds rate in effect plus 2.50%. The rate at June 30, 2025 was 13%. Outstanding borrowings under the Note Payable as of June 30, 2025 and 2024, were $45,065,869 and $46,641,959, respectively.

As of June 30, 2025, subject to BMO not exercising its right to demand repayment on all outstanding borrows as a result of the covenant violations, scheduled principal and interest repayments on the Note Payable were as follows:

Fiscal Years Ending June 30,	Principal	Interest
2026	$ 1,613,368	$ 3,146,387
2027	1,651,529	3,021,705
2028	1,690,592	2,920,116
2029	1,730,579	2,790,904
2030	1,771,511	2,666,761
Thereafter	36,608,290	1,296,385
Total	$ 45,065,869	$ 15,842,258

Note 8 – Lease Obligation and Subscription Liabilities

A summary of the changes in the lease obligation and subscription liabilities during the years ended June 30, 2025 and 2024, is as follows:

	July 1, 2024	Additions	Deductions	June 30, 2025	Amounts Due Within One Year	Amounts Due After One Year
Lease liabilities	$ 2,361,292	$ -	$ (640,347)	$ 1,720,945	$ 642,822	$ 1,078,123
Subscription liabilities	4,051,510	-	(2,848,348)	1,203,162	289,535	913,627
Total	$ 6,412,802	$ -	$ (3,488,695)	$ 2,924,107	$ 932,357	$ 1,991,750

	July 1, 2023	Additions	Deductions	June 30, 2024	Amounts Due Within One Year	Amounts Due After One Year
Lease liabilities	$ 3,175,843	$ -	$ (814,551)	$ 2,361,292	$ 838,740	$ 2,361,292
Subscription liabilities	4,436,691	825,484	(1,210,665)	4,051,510	1,136,452	3,245,226
Total	$ 7,612,534	$ 825,484	$ (2,025,216)	$ 6,412,802	$ 1,975,192	$ 5,606,518

As of June 30, 2025, future scheduled principal and interest payments for leases were as follows:

Fiscal Years Ending June 30,	Principal	Interest
2026	$ 642,822	$ 57,447
2027	430,809	37,114
2028	247,046	23,759
2029	242,954	12,686
2030	157,314	2,266
Total	$ 1,720,945	$ 133,272

As of June 30, 2025, future scheduled principal and interest payments for subscription liabilities were as follows:

Fiscal Years Ending June 30,	Principal	Interest
2026	$ 289,535	$ 55,145
2027	295,234	41,875
2028	316,814	28,343
2029	301,579	13,822
Total	$ 1,203,162	$ 139,185

Note 9 – Net Patient Service Revenue

Net patient service revenue for the years ended June 30, 2025 and 2024, was comprised of the following:

	2025	2024
Charges at established rates	$ 739,721,663	$ 714,209,259
Deductions		
Medicare, Medicaid, and OHP contractual allowances	424,680,231	403,262,121
Other contractual allowances	69,489,308	62,867,816
Provision for bad debts	2,549,385	5,484,942
Charity allowances	7,466,368	2,210,447
Total deductions	504,185,292	473,825,326
Net patient service revenue	$ 235,536,371	$ 240,383,933

Management estimates that the net cost of charity care provided was approximately $4,860,000 and $1,121,000 for the years ended June 30, 2025 and 2024, respectively. This estimate was based on the Hospital's overall ratio of costs to charges during the year. For the year ended June 30, 2025, approximately 11.5% of all inpatient admissions were classified as charity care; and approximately 6.0% of all outpatient visits in each year were classified as charity care. For the year ended June 30, 2024, approximately 2.5% of all inpatient admissions were classified as charity care; and approximately 2.8% of all outpatient visits in each year were classified as charity care. The largest proportion of services provided on a charity care basis was for emergency room, cardiology, oncology, and imaging services.

Note 10 – The Defined Benefit Plan

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

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

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

Prior to the 2002 amendment, all full-time or permanent part-time employees who were not covered by a separate pension plan sponsored under a collective bargaining agreement were eligible to participate in the Defined Benefit Plan. As of December 31, 2024, membership in the Defined Benefit Plan consisted of 26 active participants, 349 inactive participants currently receiving benefits, and 38 inactive participants not yet receiving benefits.

Benefits provided – Benefits under the Defined Benefit Plan are generally calculated as a percentage of the employee's compensation for each year multiplied by the employee's benefit service for that year, accumulated for each year that an employee is eligible to earn benefits. All participants in the Defined Benefit Plan are eligible for normal retirement benefits at age 65. A participant may retire after age 55 with five years of vesting service, with benefits at a reduced level. If a participant's employment is terminated for reasons other than retirement, disability, or death, the participant will be entitled to receive, upon eligibility for retirement, the benefit developed by the benefit formula multiplied by the vested percentage. The amount of the participant's benefit that is not vested will be forfeited. The Defined Benefit Plan's assets are held in trust, independent of the Hospital, but solely for the purpose of paying the Defined Benefit Plan's benefits and administrative expenses. The Defined Benefit Plan does not issue a separate stand-alone financial report; however, the accompanying financial statements include the fiduciary fund financial statements for the Defined Benefit Plan as of and for the years ended June 30, 2025 and 2024.

Funding policy – The contribution requirements of the Hospital are based on the terms of the Defined Benefit Plan document, which was approved, and may be amended, by the Board. The funding policy of the Defined Benefit Plan provides for an actuarially-computed required contribution using the Individual Entry Age Normal cost method of funding. The objective under this method is to fund all benefits under the Defined Benefit Plan in installments which are set as a percentage of payroll, starting at the original participation dates and continuing until assumed retirements, terminations, disabilities, or deaths. The Hospital's annual required contributions were determined as part of an actuarial valuation as of January 1, 2024.

For the years ended June 30, 2025 and 2024, the Hospital contributed $800,000 and $0, respectively, to the Defined Benefit Plan.

Net pension asset (liability) – The Hospital's net pension asset (NPA) (net pension liability (NPL)) was measured as of June 30, 2025, and the total pension liability used to calculate the NPA (NPL) was determined by an actuarial valuation as of January 1, 2025, and projected to June 30, 2025, assuming no actuarial gain or loss.

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

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

2. Projected annual salary increases of 5.50%,

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

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

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

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

The Hospital developed the expected long-term rate of return on assets assumption as a weighted average rate based on the target asset allocation of the Defined Benefit Plan and long-term capital market assumptions. The overall return for each asset class was developed by combining a long-term inflation component and the associated expected real rates of return. The development of the capital market assumptions utilized a variety of methodologies, including, but not limited to, historical analysis, stock valuation models such as dividend discount models and earnings yield models, expected economic growth outlook, and market yield analysis. This analysis resulted in the selection of the 7.25% expected long-term rate of return on Defined Benefit Plan assets for the years ended June 30, 2025 and 2024.

The target asset allocation of the Defined Benefit Plan's assets as of June 30, 2025 and 2024, was as follows:

	2025	2024
Asset category		
Domestic Equities - Large Cap	56%	35%
Fixed Income	30%	35%
Domestic Equities - Small/Mid Cap	10%	11%
Emerging Markets	2%	0%
Money Market	2%	0%
International Equities	0%	19%
Total	100%	100%

The discount rate used to measure the total pension liability was 7.25% as of June 30, 2025 and 2024. The projection of cash flows used to determine the discount rate assumed that Hospital contributions will be made at rates equal to the actuarially determined contribution rate. Based on that assumption, the Defined Benefit Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in NPA (NPL) – The changes in the Hospital's NPA (NPL) for the year ended June 30, 2025 and 2024, were as follows:

	Total Pension Liability (a)	Defined Benefit Plan Fiduciary Net Position (b)	NPA (NPL) (b) - (a)
Balances as of June 30, 2023	$ 60,112,254	$ 52,978,838	$ (7,133,416)
Service cost	163,205	-	(163,205)
Interest	4,187,563	-	(4,187,563)
Differences between expected and actual experience	(18,577)	-	18,577
Investment income, net	-	7,813,027	7,813,027
Employer contributions	-	-	-
Benefit payments	(5,121,558)	(5,121,558)	-
Net changes	(789,367)	2,691,469	3,480,836
Balances as of June 30, 2024	59,322,887	55,670,307	(3,652,580)
Service cost	172,346	-	(172,346)
Interest	4,127,777	-	(4,127,777)
Differences between expected and actual experience	(131,848)	-	131,848
Investment income, net	-	6,389,891	6,389,891
Employer contributions	-	800,000	800,000
Benefit payments	(5,211,949)	(5,211,949)	-
Net changes	(1,043,674)	1,977,942	3,021,616
Balances as of June 30, 2025	$ 58,279,213	$ 57,648,249	$ (630,964)

The following presents the Hospital's (NPL) as of June 30, 2025 and 2024, calculated using the discount rate of 7.25% as well as what the Hospital's (NPL) would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1.0% Decrease (6.25%)	Current Rate (7.25%)	1.0% Increase (8.25%)
2025			
Net Pension Liability (Asset)	$ 5,401,409	$ 630,964	$ (3,535,655)

	1.0% Decrease (6.25%)	Current Rate (7.25%)	1.0% Increase (8.25%)
2024			
Net Pension Liability	$ 8,621,209	$ 3,652,580	$ 679,232

Pension expense, deferred outflows of resources, and deferred inflows of resources – Pension expense related to the Defined Benefit Plan was approximately $452,000 and $2,092,000 for the years ended June 30, 2025 and 2024, respectively. Such amounts are classified in salaries and benefits in the accompanying statement of revenue, expenses, and changes in net position.

As of June 30, 2025 and 2024, the Hospital recorded deferred outflows of resources and deferred inflows of resources related to the Defined Benefit Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2025		
Differences between expected and actual experience	$ -	$ 131,848
Net difference between projected and actual earnings on Defined Benefit Plan assets	5,668,885	9,461,767
Total	$ 5,668,885	$ 9,593,615

	Deferred Outflows of Resources	Deferred Inflows of Resources
2024		
Differences between expected and actual experience	$ -	$ 18,577
Net difference between projected and actual earnings on Defined Benefit Plan assets	9,154,948	10,401,317
Total	$ 9,154,948	$ 10,419,894

Amounts reported as deferred outflows of resources and deferred inflows of resources as of June 30, 2025, will be recognized in future pension expense as follows:

Fiscal Years Ending June 30,	Deferred Outflows (Inflows) of Resources, net
2026	$ (1,268,145)
2027	1,011,113
2028	(1,823,330)
2029	(1,339,168)
2030	(505,200)
Total deferred outflows of resources, net	$ (3,924,730)

Note 11 – Defined Contribution Pension Plans

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

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

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

Aggregate participant contributions to 403(b) and 457 accounts during the years ended June 30, 2025 and 2024, were approximately $6,503,000 and $5,674,000, respectively. The Hospital's contributions to the Defined Contribution Plan for the years ended June 30, 2025 and 2024, were approximately $2,512,000 and $2,305,000, respectively.

The Hospital also has deferred compensation plans for certain Hospital executives. The amounts charged to expense under these plans were approximately $189,000 and $193,000 for the years ended June 30, 2025 and 2024, respectively. As of June 30, 2025 and 2024, the liabilities related to these plans aggregated approximately $574,000 and $446,000, respectively, and are included in other noncurrent liabilities in the accompanying statement of net position.

Note 12 – Postemployment Health Care Plan

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

Benefits provided – The contribution requirements of members of the Health Plan and the Hospital are established, and may be amended, by the Board. Early retirees (age 55 with at least five years of service) pay 100% of the Consolidated Omnibus Budget Reconciliation Act (COBRA) premium and may remain in the Health Plan until Medicare eligibility; there is no coverage for early retirees following Medicare eligibility. Other retirees (age 60 with at least twenty years of service) pay 100% of the COBRA premium prior to Medicare eligibility, or are paid up to $500 per month for an outside policy of their choosing. After Medicare eligibility, the Hospital contributes a fixed dollar amount towards the selected American Association of Retired Persons (AARP) Medicare supplemental insurance for those age 60 with at least 20 years of service. No retiree benefits are paid subsequent to 5 years from the date of retirement. In addition, there are certain grandfathered retirees who have different contribution requirements.

Total Other Postemployment Benefits (OPEB) liability – As of June 30, 2025, the Hospital's total OPEB liability of approximately $1,488,000 was measured as of June 30, 2024, and was determined by an actuarial valuation as of July 1, 2024, and is included in net pension liability. As of June 30, 2024, the Hospital's total OPEB liability of approximately $1,634,000 was measured as of June 30, 2023, and was determined by an actuarial valuation as of July 1, 2023.

Employees covered by benefit terms – As of July 1, 2024 (the actuarial valuation date), the following employees were covered by the benefit terms:

Active employees	734
Retired members	31
Total participants	765

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

Significant actuarial assumptions used in determining the OPEB liability as of June 30, 2025 and 2024, include the following:

1. Discount rate of 3.93%,
2. Projected annual salary increases of 3.50%,
3. Projected inflation of 2.50%,
4. Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection based on Scale MP-2021,
5. An initial annual health care cost trend rate of 6.50% for pre-65 medical costs, fluctuating to an ultimate rate of 3.75% in 2071. The dental and vision trend rate is 4.00% for all future years, and
6. Entry age normal cost method.

Changes in the total OPEB liability – The changes in the Hospital's total OPEB liability for the years ended June 30, 2025 and 2024, were as follows:

	2025	2024
Balance, beginning of year	$ 1,634,086	$ 1,638,502
Service cost	119,524	116,824
Interest	60,894	59,164
Effect of economic/demographic gains or losses	(249,965)	-
Effect of assumption changes or inputs	95,567	(10,855)
Benefit payments	(172,126)	(169,549)
Net changes	(146,106)	(4,416)
Balance, end of year	$ 1,487,980	$ 1,634,086

The following presents the Hospital's OPEB liability as of June 30, 2025 and 2024, calculated using the discount rate of 3.93% and 3.65%, respectively, as well as what the Hospital's OPEB liability would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1.0% Decrease (2.93%)	Current Rate (3.93%)	1.0% Increase (4.93%)
2025			
Total OPEB liability	$ 1,582,966	$ 1,487,980	$ 1,401,080

	1.0% Decrease (2.65%)	Current Rate (3.65%)	1.0% Increase (4.65%)
2024			
Total OPEB liability	$ 1,735,836	$ 1,634,086	$ 1,540,639

The following presents the Hospital's OPEB liability as of June 30, 2025 and 2024, as well as what the Hospital's OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1.0% Decrease	Current Rate	1.0% Increase
2025			
Total OPEB liability	$ 1,394,016	$ 1,487,980	$ 1,596,407

	1.0% Decrease	Current Rate	1.0% Increase
2024			
Total OPEB liability	$ 1,544,508	$ 1,634,086	$ 1,741,854

OPEB income, expense, deferred outflows of resources, and deferred inflows of resources – OPEB expense related to the Health Plan was approximately $177,000 and $255,000 for the years ended June 30, 2025 and 2024, respectively. Such amounts are classified in salaries and benefits in the accompanying statement of revenue, expenses, and changes in net position.

As of June 30, 2025 and 2024, the Hospital recorded deferred outflows of resources and deferred inflows of resources related to the Health Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2025		
Differences between expected and actual experience	$ (452,292)	$ -
Changes of assumptions or inputs	(496,165)	176,167
Contributions made subsequent to measurement date	-	159,980
Total	$ (948,457)	$ 336,147

	Deferred Outflows of Resources	Deferred Inflows of Resources
2024		
Differences between expected and actual experience	$ (311,878)	$ -
Changes of assumptions or inputs	(665,601)	162,056
Contributions made subsequent to measurement date	-	172,126
Total	$ (977,479)	$ 334,182

Amounts reported as deferred outflows related to contributions made subsequent to the measurement date will be recognized as a reduction of the total OPEB liability during the year ended June 30, 2025. All other amounts reported as deferred inflows and deferred outflows of resources as of June 30, 2025, will be recognized in future OPEB expense as follows:

Fiscal Years Ending June 30,	Deferred Outflows (Inflows) of Resources
2026	$ (172,664)
2027	(198,714)
2028	(231,056)
2029	(128,153)
2030	(23,541)
Thereafter	(18,162)
Total deferred outflows of resources, net	$ (772,290)

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 13 – Commitments and Contingencies

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

As of June 30, 2025, future maintenance and support costs under the contracts for the EHR System were expected to be approximately as follows:

Fiscal Years Ending June 30,	Amount
2026	$ 3,387,000
2027	3,387,000
Total	$ 6,774,000

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

Based on an actuarial valuation, the Hospital has recorded an estimated liability for IBNR medical malpractice claims, which, along with an estimated liability for reported claims, aggregated to approximately $881,000 and $931,000 as of June 30, 2025 and 2024, respectively, and is included in other noncurrent liabilities in the accompanying statement of net position (see Note 6). Management believes that this estimated liability is adequate; however, the establishment of estimated liabilities for reported and IBNR medical malpractice claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact the Hospital's reported results of operations in future periods.

Collective bargaining agreement – As of June 30, 2025 and 2024, approximately 51% and 52%, respectively, of the Hospital's employees are covered under a collective bargaining agreement (CBA) with the United Food and Commercial Workers Union (UFCW), which expires on June 30, 2025. In addition, as of June 30, 2025 and 2024, approximately 30% and 31%, respectively, of the Hospital's employees are covered under a CBA with the ONA, which expired on June 30, 2025 but was renewed under a new contract through September 30, 2026.

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

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

Note 14 – Other Related Parties

The Hospital is a member of Western Oregon Advanced Health, LLC, dba Advanced Health, a limited liability company, which was formed to operate as a coordinated care organization in Oregon and whose members consist of various Oregon health care organizations. The Hospital's investment in Advanced Health represents an approximate 5% ownership interest and is not significant to the accompanying financial statements. The Hospital's CEO is on the governing Board of Advanced Health. Under terms of a contract with Advanced Health, the Hospital provides health care services to certain OHP patients (for whom Advanced Health has agreed with OHP to provide health care services) on both a capitated and non-capitated basis. During the years ended June 30, 2025 and 2024, the Hospital received approximately $0 and $1,849,000, in capitated payments, and $25,284,000 and $16,588,000 in non-capitated payments, respectively, from Advanced Health for the provision of health care services to such OHP patients. The Hospital terminated it's capitated contract with Advanced Health in the prior year.

Note 15 – Fair Value Measurements

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

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

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

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

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

The Hospital's assets measured at fair value consist of certain investments. The following is a description of the valuation methodologies used for the Hospital's assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2025 and 2024.

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

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

As of June 30, 2025 and 2024, the Hospital's assets measured at fair value on a recurring basis consisted of the following:

	June 30, 2025			
	Level 1	Level 2	Level 3	Total
Assets limited to use				
Mortgage-backed securities	$ -	$ 147,551	$ -	$ 147,551
U.S. Government agency obligations	-	1,994,200	-	1,994,200
U.S. Treasury securities	11,132,055	-	-	11,132,055
Total	$ 11,132,055	$ 2,141,751	$ -	$ 13,273,806

	June 30, 2024			
	Level 1	Level 2	Level 3	Total
Assets limited to use				
Mortgage-backed securities	$ -	$ 13,660,996	$ -	$ 13,660,996
U.S. Government agency obligations	-	1,533,927	-	1,533,927
Corporate obligations	-	4,150,135	-	4,150,135
U.S. Treasury securities	17,225,764	-	-	17,225,764
Total	$ 17,225,764	$ 19,345,058	$ -	$ 36,570,822

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, 2025 and 2024

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability										
Service cost	$ 172,346	$ 163,205	$ 160,069	$ 210,246	$ 219,835	$ 238,232	$ 277,011	$ 325,971	$ 372,678	$ 437,324
Interest	4,127,777	4,187,563	4,235,536	4,262,919	4,218,180	4,320,286	4,284,358	4,211,265	4,166,510	4,071,078
Differences between expected and actual experience	(131,848)	(18,577)	38,990	65,365	18,479	(102,579)	351,926	(745,305)	(113,088)	300,510
Change of assumptions	-	-	-	129,945	999,659	811,844	-	1,295,479	-	-
Benefit payments	(5,211,949)	(5,121,558)	(5,078,069)	(4,916,756)	(4,745,183)	(4,597,527)	(4,200,618)	(3,931,982)	(3,638,654)	(3,310,934)
Change in total pension liability, net	(1,043,674)	(789,367)	(643,474)	(248,281)	710,970	670,256	712,677	1,155,428	787,446	1,497,978
Total pension liability, beginning of year	59,322,887	60,112,254	60,755,728	61,004,009	60,293,039	59,622,783	58,910,106	57,754,678	56,967,232	55,469,254
Total pension liability, end of year (a)	$ 58,279,213	$ 59,322,887	$ 60,112,254	$ 60,755,728	$ 61,004,009	$ 60,293,039	$ 59,622,783	$ 58,910,106	$ 57,754,678	$ 56,967,232
Defined Benefit Plan fiduciary net position										
Investment income (loss), net	$ 6,389,891	$ 7,813,027	$ 6,112,064	$ (9,415,600)	$ 14,718,659	$ 970,143	$ 1,844,223	$ 4,536,281	$ 7,035,514	$ 180,733
Employer contributions	800,000	-	100,000	350,000	411,818	582,273	425,000	500,200	919,800	690,000
Benefit payments	(5,211,949)	(5,121,558)	(5,078,069)	(4,916,756)	(4,745,183)	(4,597,527)	(4,200,618)	(3,931,982)	(3,638,654)	(3,310,934)
Change in Defined Benefit Plan fiduciary net position, net	1,977,942	2,691,469	1,133,995	(13,982,356)	10,385,294	(3,045,111)	(1,931,395)	1,104,499	4,316,660	(2,440,201)
Defined Benefit Plan fiduciary net position, beginning of year	55,670,307	52,978,838	51,844,843	65,827,199	55,441,905	58,487,016	60,418,411	59,313,912	54,997,252	57,437,453
Defined Benefit Plan fiduciary net position, end of year (b)	$ 57,648,249	$ 55,670,307	$ 52,978,838	$ 51,844,843	$ 65,827,199	$ 55,441,905	$ 58,487,016	$ 60,418,411	$ 59,313,912	$ 54,997,252
Net pension asset (liability), end of year (b) – (a)	$ (630,964)	$ (3,652,580)	$ (7,133,416)	$ 8,910,885	$ 4,823,190	$ (4,851,134)	$ (1,135,767)	$ 1,508,305	$ 1,559,234	$ (1,969,980)
Defined Benefit Plan fiduciary net position as a percentage of the total pension liability	98.92%	93.84%	88.13%	85.33%	107.91%	91.95%	98.10%	102.56%	102.70%	96.54%
Covered payroll	$ 2,578,876	$ 2,965,269	$ 2,849,647	$ 2,866,617	$ 3,474,647	$ 3,982,471	$ 4,448,511	$ 5,010,047	$ 5,918,890	$ 6,919,373
Net pension asset (liability) as a percentage of covered payroll	(24.47%)	(123.18%)	(250.33%)	(310.85%)	138.81%	(121.81%)	(25.53%)	30.11%	26.34%	(28.47%)

Bay Area Health District
dba Bay Area Hospital
Schedule of Contributions to the Defined Benefit Plan
Years Ended June 30, 2025 and 2024

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	$ -	$ -	$ -	$ -	$ 20,165	$ 218,821	$ 1,036,821	$ -	$ 481,063	$ 1,409,170
Contribution in relation to the actuarially determined contribution	-	-	100,000	350,000	411,818	582,273	425,000	500,200	919,800	690,000
Contribution deficiency (excess)	-	-	(100,000)	(350,000)	(391,653)	(363,452)	611,821	(500,200)	(438,737)	719,170
Covered payroll	$ 2,578,876	$ 2,965,269	$ 2,849,647	$ 2,866,617	$ 3,474,647	$ 3,982,471	$ 4,448,511	$ 5,010,047	$ 5,918,890	$ 6,919,373
Contribution as a percentage of covered payroll	0.00%	0.00%	3.51%	12.21%	11.85%	14.62%	9.55%	9.98%	15.54%	9.97%

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

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

Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection using Scale MP-2021 for 2025, 2024, 2023 and 2022
Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection using Scale MP-2020 for 2021
Mortality using the Pub-2010 Public Retirement Plans Mortality with fully generational projection using Scale MP-2019 for 2020
Mortality using the RP2000 Mortality Table with fully generational projection using Scale BB for 2019 and 2018
Mortality using the RP2000 Mortality Table projected to 2020 using Scale BB for 2017 and 2016

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

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

Bay Area Health District
dba Bay Area Hospital
Schedule of Changes in Total OPEB Liability and Related Ratios for the Health Plan
Year Ended June 30, 2025 and 2024

	2025	2024	2023	2022	2021	2020	2019	2018
Total OPEB Liability								
Service cost	$ 119,524	$ 116,824	$ 233,156	$ 226,797	$ 149,988	$ 123,716	$ 176,673	$ 186,776
Interest	60,894	59,164	65,792	65,741	89,222	116,285	133,672	114,192
Effect of changes to benefit terms	-	-	-	-	-	(529,927)	-	-
Effect of economic/demographic gains or losses	(249,965)	-	(441,561)	-	(5,462)	-	(84,659)	-
Effect of assumption changes or inputs	95,567	(10,855)	(907,492)	9,524	354,849	78,042	(591,150)	(187,156)
Benefit payments	(172,126)	(169,549)	(246,963)	(227,538)	(251,341)	(288,054)	(333,026)	(423,119)
Change in total OPEB liability, net	(146,106)	(4,416)	(1,297,068)	74,524	337,256	(499,938)	(698,490)	(309,307)
Total OPEB liability, beginning of the year	$ 1,634,086	$ 1,638,502	$ 2,935,570	$ 2,861,046	$ 1,325,362	$ 3,023,728	$ 3,722,218	$ 4,031,525
Total OPEB liability, end of the year	1,487,980	1,634,086	1,638,502	2,935,570	1,662,618	2,523,790	3,023,728	3,722,218
Covered payroll	$ 62,392,132	$ 56,118,959	$ 51,774,763	$ 51,100,219	$ 49,929,679	$ 47,851,625	$ 48,252,462	$ 45,033,885
Total OPEB liability as a percentage of covered payroll	2.38%	2.91%	3.16%	5.74%	3.33%	5.27%	6.27%	5.27%

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

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

Changes in assumptions:
Effect of assumption changes or inputs reflects the changes in the discount rate and salary increases each period. As of June 30, 2025, 2024, 2023, 2022, 2021, 2020, 2019, and 2018, the discount rates were 3.93%, 3.65%, 3.54%, 2.16%, 2.21%, 3.50%, 3.87%, and 3.58% respectively. As of June 30, 2025, 2024, 2023, 2022, 2021, 2020, 2019, and 2018, the annual pay increases used 3.5%, 3.5%, 3.50%, 3.50%, 3.50%, 3.50%, 3.50%, and 4.50%, respectively.

Bay Area Health District
dba Bay Area Hospital
Schedule of Revenue, Expenditures, and Changes in Net Position – Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2025

	Original/ Final Budget	Actual	Variance
Operating revenue			
Net patient service revenue	$ 263,060,971	$ 235,536,371	$ (27,524,600)
Other revenue	3,272,761	4,639,631	1,366,870
Total operating revenue	266,333,732	240,176,002	(26,157,730)
Expenditures			
Personal services	140,834,164	124,567,982	(16,266,182)
Materials and services	112,432,216	130,416,192	17,983,976
Capital outlay	8,234,408	2,303,107	(5,931,301)
Debt service	3,629,012	2,354,563	(1,274,449)
Contingencies	700,000	-	(700,000)
Total expenditures	265,829,800	259,641,844	(6,187,956)
Operating loss	503,932	(19,465,842)	(19,969,774)
Nonoperating revenue (expense)			
Investment income, net	-	2,224,152	2,224,152
Noncapital contributions	-	1,301,122	1,301,122
Loss on sale of capital assets	-	(1,287,915)	(1,287,915)
Interest expense	(2,321,518)	(2,354,563)	(33,045)
Other	1,215,833	-	(1,215,833)
Total nonoperating revenue, net	(1,105,685)	(117,204)	988,481
Income (loss) before capital contributions	(601,753)	(19,583,046)	(18,981,293)
Difference between GAAP and budgetary basis, net	1,123,003	(5,757,739)	(6,880,742)
Increase (decrease) in net position	521,250	(25,340,785)	(25,862,035)
Net position, June 30, 2024	88,800,734	88,800,734	-
Net position, June 30, 2025	$ 89,321,984	$ 63,459,949	$ (25,862,035)

Report of Independent Auditors Required by Oregon State Regulations

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

We have audited, in accordance with auditing standards generally accepted in the United States of America the financial statements of Bay Area Hospital District, dba Bay Area Hospital (the Hospital) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Bay Area Hospital's basic financial statements, and have issued our report thereon dated January 15, 2026. An Emphasis of Matter paragraph describing substantial doubt about the Hospital's ability to continue as a going concern is included in our Report of Independent Auditors on the financial statements.

Compliance

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

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

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

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

Internal Control Over Financial Reporting

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

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

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

Purpose of this Report

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

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

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