



embrace HEALTH™
SANTIAM HOSPITAL

**Consolidated
Financial Statements and
Supplementary Information
and Single Audit Reports**

**Years Ended
December 31, 2021
and 2020**

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

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Independent Auditors' Report

To the Board of Directors of
Santiam Memorial Hospital, dba Santiam Hospital

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Santiam Memorial Hospital (an Oregon nonprofit corporation) and subsidiary, collectively doing business as (dba) "Santiam Hospital" (the Hospital), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, "the financial statements").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (U.S.).

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the U.S. (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S. (GAS). Our responsibilities under those standards are further described in the Auditors' 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the U.S.; 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 within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS 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, including omissions, 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 and GAS, 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 control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the 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 audits.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by GAS

In accordance with GAS, we have also issued our reported dated April 12, 2022, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with GAS in considering the Hospital's internal control over financial reporting and compliance.

DELAP LLP

April 12, 2022

Santiam Memorial Hospital and Subsidiary
dba Santiam Hospital
Consolidated Balance Sheets

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 21,058,293	\$ 20,525,766
Assets limited as to use	141,237	199,808
Patient accounts receivable	11,607,123	7,878,996
Supplies inventory	1,798,503	1,936,179
Prepaid expenses and other current assets	3,194,852	1,473,784
Total current assets	<u>37,800,008</u>	<u>32,014,533</u>
Assets limited as to use - net of current portion	5,372,142	6,132,240
Long-term investments	1,638,837	1,796,828
Property and equipment - net	31,580,085	30,332,819
Other noncurrent assets	690,264	756,230
Total Assets	<u>\$ 77,081,336</u>	<u>\$ 71,032,650</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 1,750,372	\$ 1,457,757
Accrued liabilities		
Payroll, payroll taxes, and withholdings	801,469	1,223,653
Paid time off	1,443,841	1,245,981
Other	2,029,088	1,771,441
Estimated third-party payor settlements payable - net	618,708	845,191
Government refundable advances	552,086	2,000,000
Current portion of long-term obligations	1,031,972	988,121
Total current liabilities	<u>8,227,536</u>	<u>9,532,144</u>
Long-term obligations - net	19,327,207	20,227,721
Payroll protection program (PPP) loan payable	-	5,111,900
Other noncurrent liabilities	952,264	883,502
Total liabilities	<u>28,507,007</u>	<u>35,755,267</u>
Net assets		
Without donor restrictions	46,756,795	32,595,449
With donor restrictions	1,817,534	2,681,934
Total net assets	<u>48,574,329</u>	<u>35,277,383</u>
Total Liabilities and Net Assets	<u>\$ 77,081,336</u>	<u>\$ 71,032,650</u>

The accompanying notes are an integral part of the consolidated financial statements.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Consolidated Statements of Operations

Years Ended December 31, 2021 and 2020

	2021	2020
Revenue		
Patient care service revenue	\$ 81,394,311	\$ 62,415,583
Government grant revenue	5,393,368	9,009,412
Other revenue	3,185,916	2,443,865
Net assets released from restrictions - satisfaction of program restrictions	2,341,130	72,505
Total revenue	92,314,725	73,941,365
Expenses		
Operating departments	60,755,804	48,974,011
Service departments	4,273,003	4,141,908
Administrative and general	15,291,970	10,350,672
Interest	1,086,679	1,183,985
Depreciation	2,619,996	2,497,595
Total expenses	84,027,452	67,148,171
Operating Income	8,287,273	6,793,194
Other income		
Investment income - net	165,972	130,260
Gain on PPP loan extinguishment	5,161,900	-
Other	481,201	749,238
Total other income	5,809,073	879,498
Excess of Revenue Over Expenses	14,096,346	7,672,692
Contributions of property and equipment	65,000	188,017
Increase in Net Assets Without Donor Restrictions	\$ 14,161,346	\$ 7,860,709

The accompanying notes are an integral part of the consolidated financial statements.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2021 and 2020

	2021	2020
Net Assets Without Donor Restrictions		
Excess of revenue over expenses	\$ 14,096,346	\$ 7,672,692
Contributions of property and equipment	65,000	188,017
Increase in net assets without donor restrictions	14,161,346	7,860,709
Net Assets With Donor Restrictions		
Contributions	1,476,730	2,754,439
Net assets released from donor restrictions - satisfaction of program restrictions	(2,341,130)	(72,505)
Increase (decrease) in net assets with donor restrictions	(864,400)	2,681,934
Increase in Net Assets	13,296,946	10,542,643
Net assets - beginning of year	35,277,383	24,734,740
Net Assets - End of Year	\$ 48,574,329	\$ 35,277,383

The accompanying notes are an integral part of the consolidated financial statements.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows From Operating Activities		
Increase in net assets	\$ 13,296,946	\$ 10,542,643
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	2,619,996	2,497,595
Amortization and accretion of debt obligation - net	131,457	136,632
Net realized and unrealized gains on investments	(90,865)	(69,286)
Gain on PPP loan extinguishment	(5,161,900)	-
Contributions of property and equipment	(65,000)	(188,017)
Changes in certain operating assets and liabilities		
Patient accounts receivable	(3,728,127)	(372,139)
Supplies inventory	137,676	(142,803)
Prepaid expenses and other current assets	(1,721,068)	(241,499)
Long-term investments	248,856	1,015,037
Other noncurrent assets	65,966	(57,837)
Accounts payable	292,615	191,398
Accrued liabilities	83,323	215,100
Estimated third-party payor settlements payable - net	(226,483)	243,623
Government refundable advances	(1,447,914)	2,000,000
Other noncurrent liabilities	68,762	49,837
Net cash provided by operating activities	4,504,240	15,820,284
Cash Flows From Investing Activities		
Decrease in assets limited as to use - net	38,005	438,572
Purchases of property and equipment - net	(3,802,262)	(2,756,380)
Net cash used by investing activities	(3,764,257)	(2,317,808)
Cash Flows From Financing Activities		
Principal paid on long-term obligations	(988,120)	(946,133)
Proceeds from issuance of PPP loan	-	5,111,900
Net cash provided (used) by financing activities	(988,120)	4,165,767
Net Increase (decrease) in Cash, Cash Equivalents, and Restricted Cash	(248,137)	17,668,243
Cash, cash equivalents, and restricted cash - beginning of year	26,819,809	9,151,566
Cash, Cash Equivalents, and Restricted Cash - End of Year	\$ 26,571,672	\$ 26,819,809

The accompanying notes are an integral part of the consolidated financial statements.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2021 and 2020

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

	2021	2020
Cash and cash equivalents	\$ 21,058,293	\$ 20,525,766
Restricted cash included in assets limited as to use		
Internally designated for capital acquisitions	126,205	369,899
Donor restricted amounts principally for Santiam Canyon Wildfire Relief Fund	1,817,535	2,681,934
Restricted amounts related to a mortgage note payable agreement	3,569,639	3,242,210
	\$ 26,571,672	\$ 26,819,809
 Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 954,423	\$ 993,852

The accompanying notes are an integral part of the consolidated financial statements.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Notes to Consolidated Financial Statements Years Ended December 31, 2021 and 2020

1. Business, Organization, and Summary of Significant Accounting Policies

Business, organization, and principles of consolidation

Santiam Memorial Hospital is an Oregon nonprofit corporation located in Stayton, Oregon. Santiam Memorial Hospital provides inpatient, outpatient, and emergency health care services primarily to residents in the local geographic area. Santiam Medical Group, LLC (the Medical Group) provides outpatient medical services at Santiam Memorial Hospital's various clinic locations. Santiam Memorial Hospital is the 100% owner of the Medical Group. Santiam Memorial Hospital and the Medical Group are collectively doing business as "Santiam Hospital" (the Hospital).

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

In March 2022, Santiam Hospital and Clinics Foundation was formed – with Santiam Memorial Hospital as its sole member – to promote, develop, and raise funds for the Hospital.

Method of accounting

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

COVID-19 pandemic and government assistance

In January 2020, the Secretary of the U.S. Department of Health and Human Services (HHS) declared a national public health emergency due to a novel strain of coronavirus (COVID-19). The global pandemic caused by COVID-19 (the COVID-19 pandemic) has significantly affected the Hospital's facilities, employees, patients, community, business operations, and financial performance, as well as the U.S. economy and financial markets. Due in part to local, state, and federal guidelines (as well as recommendations from major medical societies); social distancing; and self-quarantines in response to the COVID-19 pandemic, beginning in March 2020, the COVID-19 pandemic began to negatively affect the Hospital's net revenue and business operations. Specifically, for the period from March 23 to May 4, 2020, the Hospital temporarily ceased performing many elective medical procedures, and the Hospital's surgical case volumes decreased significantly. In addition, during this period, the Hospital temporarily restricted capital purchases. Although the Hospital cannot provide any certainty regarding the length and severity of the impact of the COVID-19 pandemic, surgical case volumes gradually improved subsequent to May 4, 2020 as the State of Oregon (Oregon) and local governments began to re-open and allow for non-emergent procedures. The Hospital's operating structure enables some flexibility in the cost structure according to the volume of surgical procedures performed, including much of its cost of revenues. In addition to the natural variability of these costs, the Hospital has undertaken additional steps to preserve financial flexibility. Beginning in March 2020, and through September 2020, the Hospital took actions that included significantly reducing cash operating expenses and deferring non-essential expenditures at the height of the crisis. Although the COVID-19 pandemic waned early in the summer of 2021, the Delta and Omicron variants significantly impacted the Hospital later in the summer and off and on throughout the winter.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Notes to Consolidated Financial Statements Years Ended December 31, 2021 and 2020

The impact of the COVID-19 pandemic on the Hospital's future operational and financial performance will depend on certain developments, including the duration and spread of the outbreak (including variants), as well as the impact on the Hospital's patients, employees, and vendors. The extent to which COVID-19 may impact the Hospital's future financial condition or results of operations is uncertain and cannot be reasonably estimated at this time.

In March 2021 and 2020, the U.S. Congress passed the *American Rescue Plan Act* and the *Coronavirus Aid, Relief and Economic Security Act*, respectively (collectively, "the Acts"), which, among other things, provided certain relief to health care providers. During 2021 and 2020, the Hospital received aggregate grants of approximately \$450,000 and \$6,653,000 from HHS under the Acts. Payments received from these grants (i.e., "Provider Relief Funds") are not required to be repaid provided that the recipient attests to and complies with certain terms and conditions, including limitations on balance billing and not using funds received from the grants to reimburse expenses or losses that other sources are obligated to reimburse. The recognition of amounts received as revenue is conditioned upon certification that funds will be used to prevent, prepare for, and respond to the COVID-19 pandemic and shall reimburse the recipient only for health care-related expenses or "lost revenues" that are attributable to the COVID-19 pandemic. Amounts are recognized as operating revenue only to the extent that the Hospital is reasonably assured that the underlying conditions are met. Based on Management's analysis, the Hospital met the requirements to recognize approximately \$2,450,000 and \$4,600,000 of such grant funds as revenue during the years ended December 31, 2021 and 2020, respectively, which are included in government grant revenue in the accompanying consolidated statements of operations. As of December 31, 2020, the unrecognized amount of such funds was \$2,000,000 and was recorded in current liabilities as government refundable advances in the accompanying 2020 consolidated balance sheet. As of December 31, 2021, all such Provider Relief Funds had been recognized as revenue. The current guidance governing the reporting of COVID-19 related expenditures and/or lost revenues that are attributable to the COVID-19 pandemic is vague and subject to interpretation. In addition, the guidance has been modified several times since the Provider Relief Funds have been distributed. As a result, there is at least a reasonable possibility that the amount of such funds recorded as income will change by a material amount in the near-term.

During 2020, the Hospital also received a grant of approximately \$3,500,000 from the State of Oregon. Payments received under this grant (i.e., "Rural Hospital Stabilization Program Grant") are not required to be repaid provided that the recipient attests to and complies with certain terms and conditions, including not using funds received from the grant to reimburse expenses that other sources are obligated to reimburse and compliance with employee programs as outlined in the agreement. The recognition of amounts received as revenue is conditioned upon certification that the funds will be used to respond to the COVID-19 pandemic and shall reimburse the recipient only for necessary expenditures incurred due to the COVID-19 pandemic. Amounts are recognized as operating revenue only to the extent that the Hospital is reasonably assured that the underlying conditions are met. Based on Management's analysis, the Hospital met the requirements to recognize the full amount of this grant as revenue during the year ended December 31, 2020, which is included in government grant revenue in the accompanying 2020 consolidated statement of operations.

In addition, the Hospital has recorded various other grants and financial assistance during the years ended December 31, 2021 and 2020 totaling approximately \$2,550,000 and \$900,000, respectively, to assist with COVID-19 related costs. Based on Management's analysis, the Hospital met the requirements to recognize approximately \$2,000,000 and \$900,000 of such grant funds as revenue during the years ended December 31, 2021 and 2020, respectively, which are included in government grant revenue in the accompanying consolidated statements of operations. As of December 31, 2021, the unrecognized amount of such funds was approximately \$433,000 and was recorded in current liabilities as government refundable advances in the accompanying 2021 consolidated balance sheet. During the year ended December 31, 2021, the Hospital recorded various other grants from Oregon and other municipalities totaling approximately \$1,056,000, of which \$935,000 is included in government grant revenue in the accompanying 2021 consolidated statement of operations. As of December 31, 2021, the unrecognized amount of such funds was approximately \$119,000 and was recorded in current liabilities as government refundable advances in the accompanying 2021 consolidated balance sheet.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Notes to Consolidated Financial Statements Years Ended December 31, 2021 and 2020

Also, under the CARES Act, Paycheck Protection Program (PPP) loans were made available to small businesses and other organizations as a direct incentive to keep their workers employed throughout the crisis. Accordingly, in April 2020, the Hospital obtained a PPP loan in the amount of \$5,111,900 from Key Bank. The Hospital elected to adopt the debt model to account for its PPP loan in accordance with the Financial Accounting Standards Board's (FASB's) Accounting Standards Codification (ASC) 470, *Debt*. Under the terms of the CARES Act, PPP loan recipients may apply for and be granted forgiveness for all or a portion of the loan and accrued interest based on the use of loan proceeds. In August 2021, the Hospital received full forgiveness of the April 2020 PPP loan and accrued interest from the Small Business Administration (SBA), as all employee retention criteria were met, and the funds were used for eligible expenses during the 24-week coverage period. Accordingly, the Hospital recorded a gain on PPP loan extinguishment of \$5,161,900 (including \$50,000 of forgiven accrued interest) which is included in other income in the accompanying 2021 consolidated statement of operations.

Patient care service revenue

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

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

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

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

The transaction price is based on gross charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's charity care policy, and implicit price concessions provided primarily to uninsured and underinsured patients. Management has determined the estimate of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience. Management has also determined the estimate of implicit price concessions based on historical collection experience with these patient classes

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Notes to Consolidated Financial Statements Years Ended December 31, 2021 and 2020

using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The consolidated financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Gross charges are retail charges. They are not the same as actual pricing, and they generally do not reflect what a hospital is ultimately paid and, therefore, are not displayed in the consolidated statements of operations. Hospitals are typically paid amounts that are negotiated with insurance companies or are set by the government.

A significant portion of the Hospital's services is provided to Medicare, OHP, and Medicaid patients under contractual arrangements. Inpatient acute care services rendered by the Hospital to Medicare program beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors (i.e., "Medicare severity-diagnosis related groups" or "MS-DRGs"). Such payments include a capital cost component and may be greater or less than the actual charges for services. Inpatient non-acute care services related to Medicare beneficiaries are reimbursed under a cost reimbursement methodology. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. In addition, certain outpatient services related to Medicare beneficiaries are reimbursed based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after audits of the Hospital's annual cost reports by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited and final settled by the Medicare fiscal intermediary through December 31, 2017.

Services rendered to OHP beneficiaries are primarily reimbursed at discounts from standard charges or based on fee schedules. Certain services rendered to OHP beneficiaries are partially reimbursed under a capitation agreement. During the years ended December 31, 2021 and 2020, the Hospital received approximately \$1,200,000 and \$1,411,000, respectively, in capitation payments related to OHP beneficiaries, which are included in patient care service revenue in the accompanying consolidated statements of operations. Services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Under this methodology, the Hospital is reimbursed at a tentative rate with final settlement determined after audits of the Hospital's annual cost reports by Medicaid. The Hospital's Medicaid cost reports have been audited and final settled by Medicaid through December 31, 2017.

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

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

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor,

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Notes to Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

and historical settlement trends, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, when new information becomes available) or as years are settled or are no longer subject to such audits, reviews, and investigations.

Activity related to the Hospital's estimated third-party payor settlements payable - net for the years ended December 31, 2021 and 2020 was approximately as follows:

	<u>Medicare</u>	<u>Medicaid</u>	<u>Total</u>
Balances as of December 31, 2019	\$ 28,000	\$ (630,000)	\$ (602,000)
Settlements received related to prior years' cost reports	(237,000)	-	(237,000)
Revisions of estimates for prior years' cost report settlements - net	99,000	26,000	125,000
Estimates for 2020 cost report settlements	<u>69,000</u>	<u>(200,000)</u>	<u>(131,000)</u>
Balances as of December 31, 2020	(41,000)	(804,000)	(845,000)
Settlements paid (received) related to prior years' cost reports - net	(196,000)	236,000	40,000
Revisions of estimates for prior years' cost report settlements - net	27,000	79,000	106,000
Estimates for 2021 cost report settlements	<u>295,000</u>	<u>(215,000)</u>	<u>80,000</u>
Balances as of December 31, 2021	<u>\$ 85,000</u>	<u>\$ (704,000)</u>	<u>\$ (619,000)</u>

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

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

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made by patients with insurance; and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the estimation process. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient care service revenue in the period of the change.

The Hospital provides implicit price concessions, primarily to uninsured patients and patients with co-pays, co-insurance, and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and amounts that the Hospital expects to collect based on collection history with similar patients. For the years ended December 31, 2021 and 2020, the Hospital recorded approximately \$2,101,000 and \$2,698,000, respectively, of implicit price concessions as direct reductions of patient care service revenue.

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

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

In accordance with the terms of the Hospital's contract with a managed care plan (the MCP) to provide services to certain OHP beneficiaries covered under the capitation agreement, a percentage of the Hospital's reimbursement is retained by the MCP in a risk pool reserve. To the extent that actual health care costs are less than agreed-upon medical target loss ratios, a portion of such amounts is returned to the Hospital. Conversely, to the extent that actual health care costs exceed such targets, the Hospital must reimburse the MCP for a portion of such excess. Consequently, the Hospital is at risk to the extent that actual health care costs exceed target loss ratios for the MCP. Estimates are recorded in the period such contracts are in effect and adjusted in future periods as final settlements are determined. Net patient service revenue was increased by approximately \$193,000 during the year ended December 31, 2021 due to a revision of the estimate for the 2020 settlement with the MCP. As of December 31, 2021 and 2020, the Hospital had no estimated receivables, payables, or deferred revenue relating to its contract with the MCP, as such amounts are not reasonably estimable until settlement occurs. There is at least a reasonable possibility that patient service revenue recorded in 2021 related to the MCP will change by a material amount in the near-term.

Charity care

The Hospital provides services to patients who meet the criteria of its charity care policy without charge or at amounts less than its established rates. The Hospital's criteria for the determination of charity care include the patient's – or the other responsible party's – annual household income, assets, credit history, existing debt obligations, and other indicators of the patient's ability to pay. Generally, uninsured individuals

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with an annual household income at, or less than, 250% of the Federal Poverty Guidelines (the Guidelines) qualify for charity care under the Hospital's policy (less than 200% of the Guidelines during the year ended December 31, 2020). In addition, the Hospital provides discounts on a sliding scale to those individuals with an annual household income of between 250% and 400% of the Guidelines (between 200% and 400% of the Guidelines during the year ended December 31, 2020). Since the Hospital does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported in patient care service revenue.

Patient accounts receivable

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

Patient accounts receivable – including billed accounts and unbilled accounts for which the Hospital has the unconditional right to payment, and estimated amounts due from third-party payors for retroactive adjustments – are receivables if the Hospital's right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. The estimated uncollectible amounts are generally considered implicit price concessions that are a direct reduction to patient accounts receivable rather than as an allowance for doubtful accounts. During the year ended December 31, 2021 and 2020, patient care service revenue was decreased by approximately \$212,000 and \$641,000, respectively, due to a change in Management's estimate of the implicit price concessions. During the year ended December 31, 2021, net patient service revenue was increased by approximately \$1,250,000 due to a change in Management's estimate of the collectability of patient accounts receivable as of December 31, 2020.

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

Significant concentrations of gross patient accounts receivable as of December 31, 2021 and 2020 were approximately as follows:

	2021	2020
Medicare	34%	32%
OHP and Medicaid	16	16
Commercial insurance and other third-party payors	34	32
Self-pay	16	20
	100%	100%

Cash and cash equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with remaining maturities of three months or less at the time of purchase by the Hospital, excluding assets limited as to use (see Note 2). The Hospital maintains its bank accounts at several financial institutions. The Hospital's accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each financial institution. As of December 31, 2021, certain of the Hospital's bank balances exceeded the applicable FDIC coverage; however, Management believes that its credit risk with respect to these bank balances is minimal due to the financial strength of the financial institutions.

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Assets limited as to use and long-term investments

Assets limited as to use consist of assets (cash, money market accounts, and certificates of deposit) designated by the Hospital's Board of Directors (the Board) for future capital acquisitions, over which the Board retains control and may, at its discretion, subsequently use for other purposes (internally designated assets); donor restricted funds principally held for the benefit of victims of the September 2020 Oregon wildfires (the Santiam Canyon Wildfire Relief Fund (the Wildfire Relief Fund)); and cash held in escrow accounts restricted pursuant to a mortgage note payable agreement with Midland States Bank (the Mortgage Note) (see Notes 2 and 4). Long-term investments consist of equity mutual and exchange-traded funds (ETFs), fixed income mutual funds, and corporate bonds (see Note 2).

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets (see Note 9). Investment income or loss (including interest, dividends, realized and unrealized gains and losses, and external and direct internal investment expenses) is included in the excess of revenue over expenses unless their use is limited by donor-imposed restrictions or by law that extends donor restrictions, in which case investment income or loss on equity securities would be reported as increases or decreases in net assets with donor restrictions. For cash flow reporting purposes, purchases, sales, and maturities of assets limited as to use are classified as investing activities; and purchases, sales, and maturities of other investments are classified as cash flows from operating activities.

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

Supplies inventory

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

Property and equipment

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

Depreciation is provided over the estimated useful lives of the depreciable assets based on guidelines published by the American Hospital Association and is computed using the straight-line method. Net interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. The Hospital did not capitalize any interest during the years ended December 31, 2021 and 2020.

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

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Deferred financing costs and premium on the Mortgage Note

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

Willamette Valley Community Health, LLC

Oregon statutes provide a framework for the creation of coordinated care organizations (CCOs) which are responsible for providing fully integrated physical, mental, and dental health services for OHP patients. The Hospital invested approximately \$273,000 in Willamette Valley Community Health, LLC (WVCH), an Oregon CCO, which represented an approximate 9% ownership interest. This investment in WVCH was included in other noncurrent assets in the accompanying 2020 consolidated balance sheet. The Hospital accounted for its interest in WVCH at cost and recorded dividends or distributions from WVCH as other income when received. In January 2019, the Board of Directors of WVCH (the WVCH Board) voted to discontinue the operations of WVCH after December 31, 2019. During the year ended December 31, 2021, the Hospital recovered its initial investment of approximately \$273,000.

During the years ended December 31, 2021 and 2020, the Hospital received distributions from WVCH of approximately \$450,000 and \$625,000, respectively, which are recorded in other income in the accompanying statements of operations.

Net assets with donor restrictions

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

Consolidated statements of operations

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

Contributions

Contributions are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires – that is, when a stipulated time restriction ends or purpose restriction is accomplished – net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Hospital's consolidated statements of operations as net assets released from donor restrictions. Donor-restricted and grantor-restricted contributions whose restrictions are met within the same year as received are included in government grant revenue and/or other revenue in the Hospital's consolidated statements of operations. During the year ended December 31, 2021, the Hospital received \$1,319,230 from donors restricted for the purposes of the Wildfire Relief Fund, and \$2,328,496 of such funds was expended in accordance with the donors' restrictions. During the year ended December 31, 2020, the Hospital received \$2,754,439 from donors restricted for the purposes of the Wildfire Relief Fund, and \$72,505 of such funds was expended in accordance with the donors' restrictions. During the year ended December 31, 2021, the Hospital received \$157,500 from donors restricted for other purposes, and \$12,634 of such funds was expended in accordance with the donors' restrictions. During the year ended December 31, 2021, the Wildfire Relief Fund reimbursed the Hospital approximately \$244,000 for administrative and operational expenses incurred by the Hospital in managing the Wildfire Relief Fund.

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

Oregon provider tax

The Hospital is subject to a "provider tax" levied by Oregon to provide additional funding for OHP. The tax is based on patient care service revenue, as adjusted, in accordance with the rules governing the program. The Hospital recorded provider taxes of approximately \$3,593,000 and \$2,571,000 for the years ended December 31, 2021 and 2020, respectively, which are included in administrative and general expenses in the accompanying consolidated statements of operations.

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 patient care service revenue in the accompanying consolidated statements of operations. As of December 31, 2021 and 2020, prepaid expenses and other current assets include approximately \$967,000 and \$789,000, respectively, of provider taxes receivable due from OAHHS; and other accrued liabilities include approximately \$967,000 and \$789,000, respectively, of provider taxes payable to Oregon.

Income taxes

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

Income tax positions that meet a "more-likely-than-not" recognition threshold are measured at the largest amount of income tax benefit that is more than 50% likely to be realized upon settlement with the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized income tax benefits in the Hospital's consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized income tax benefits would be classified as income taxes in the Hospital's consolidated statements of operations. There were no unrecognized income tax benefits, nor any interest and penalties associated with unrecognized income tax benefits, accrued or expensed as of and for the years ended December 31, 2021 and 2020.

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

Recently issued accounting standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02, *Leases*, which created FASB Accounting Standards Codification (ASC) Topic 842 (ASC 842).

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ASC 842 is intended to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities in the consolidated balance sheet and disclosure of key information about leasing arrangements. The principal change required by ASC 842 relates to lessee accounting for operating leases and requires a lessee to (1) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the consolidated balance sheet, (2) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term generally on a straight-line basis, and (3) classify all cash payments within operating activities in the consolidated statement of cash flows. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. ASC 842 also changes disclosure requirements related to leasing activities and requires certain qualitative disclosures along with specific quantitative disclosures. ASC 842 is effective for the Hospital beginning in 2022. Management is currently evaluating the impact that the adoption of ASC 842 will have on the Hospital's future consolidated financial statements.

Subsequent events

Management has evaluated, for potential recognition or disclosure in the consolidated financial statements, subsequent events that have occurred through April 12, 2022, which is the date that the consolidated financial statements were available to be issued.

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

As of December 31, 2021, the Hospital has working capital of \$29,572,472 and average days (based on normal expenditures) cash on hand of 102.3.

Assets limited as to use consisted of the following as of December 31, 2021 and 2020 :

	<u>2021</u>	<u>2020</u>
Internally designated for capital acquisitions		
Cash and cash equivalents	\$ 126,205	\$ 369,899
Certificates of deposit	-	38,005
Total internally designated for capital acquisitions	<u>126,205</u>	<u>407,904</u>
Amounts held with donor restrictions principally for Wildfire Relief Fund (primarily cash and cash equivalents)	<u>1,817,535</u>	<u>2,681,934</u>
Restricted amounts related to the Mortgage Note (see Note 4)		
Cash held in trust related to mortgage reserve fund	3,428,402	3,042,402
Cash held in escrow related to taxes and insurance	141,237	199,808
Total restricted amounts related to the Mortgage Note	<u>3,569,639</u>	<u>3,242,210</u>
Less portion classified as current	<u>(141,237)</u>	<u>(199,808)</u>
Total restricted amounts related to the Mortgage Note - net of current portion	<u>3,428,402</u>	<u>3,042,402</u>
Total assets limited as to use - net of current portion	<u>\$ 5,372,142</u>	<u>\$ 6,132,240</u>

Long-term investments consisted of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Equity mutual funds and ETFs	\$ 1,361,466	\$ 1,083,347
Fixed income mutual funds	277,371	202,793
Corporate bonds	-	510,688
Long-term investments	<u>\$ 1,638,837</u>	<u>\$ 1,796,828</u>

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The mortgage reserve fund held in trust in the above table is held by a trustee in accordance with the Mortgage Note, and the cash held in escrow related to taxes and insurance is held by Midland States Bank (see Notes 1 and 4). The current portion of restricted amounts related to the Mortgage Note are available to be used within one year for taxes and insurance (see below), and the long-term investments are available to be used for other purposes at the discretion of Management. The cash held with donor restrictions is expected to principally be expended for the benefit of Oregon wildfire victims as program restrictions are accomplished and is not available for general purposes. The other assets limited to use, consisting of internally designated assets and restricted amounts related to the Mortgage Note - net of current portion are not available for general expenditure within the next year. However, the amounts internally designated by the Board could be made available, if necessary.

The Hospital's financial assets available for general expenditure within one year of December 31, 2021 and 2020 consisted of the following:

	2021	2020
Cash and cash equivalents	\$ 21,058,293	\$ 20,525,766
Assets limited to use - held by trustee	141,237	199,808
Patient accounts receivable - net	11,607,123	7,878,996
Less government refundable advances	(552,086)	(2,000,000)
	\$ 32,254,567	\$ 26,604,570

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

Investment income - net consisted of the following for the years ended December 31, 2021 and 2020:

	2021	2020
Interest and dividend income	\$ 75,107	\$ 60,974
Realized gains (losses) on sales of securities - net	58,883	(15,930)
Unrealized gains on securities - net	31,982	85,216
Investment income - net	\$ 165,972	\$ 130,260

3. Property and Equipment

Property and equipment consisted of the following as of December 31, 2021 and 2020:

	2021	2020
Land	\$ 1,912,367	\$ 1,470,904
Land improvements	770,324	619,850
Buildings and improvements	42,580,624	40,191,248
Equipment	19,761,795	18,319,560
	65,025,110	60,601,562
Less accumulated depreciation	(33,502,041)	(30,870,211)
	31,523,069	29,731,351
Construction in progress	57,016	601,468
Property and equipment - net	\$ 31,580,085	\$ 30,332,819

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Construction in progress as of December 31, 2021 includes costs incurred in connection with various capital projects. The most significant of these capital projects is a remodel of the Hospital's emergency room. Management estimates that the cost to complete this project is approximately \$5,500,000 as of December 31, 2021 with an estimated date of completion by the end of 2022. This project will be financed primarily from the Hospital's cash and cash equivalents, internally designated assets, long-term investments, fundraising, and cash generated by future operations; however, Management will consider other financing options as needed and available.

In November 2021, the Hospital entered into agreements to purchase new cardiac monitoring and anesthesia systems with an estimated cost of approximately \$1,000,000.

4. Long-term Obligations

Long-term obligations consisted of the following as of December 31, 2021 and 2020:

	2021	2020
Mortgage Note	\$ 21,434,792	\$ 22,362,709
Other	62,875	123,078
Unamortized bond premium	714,196	798,202
Deferred financing costs - net	(1,852,684)	(2,068,147)
Total	20,359,179	21,215,842
Less current portion	(1,031,972)	(988,121)
Long-term obligations - net	\$ 19,327,207	\$ 20,227,721

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

In addition, under the Mortgage Note, the Hospital is required to make a deposit each month into a mortgage reserve fund so that such fund reaches certain scheduled year-end balances (including interest earned by the fund) growing from \$3,428,402 as of December 31, 2021 (see Note 2) to a maximum of approximately \$3,765,000 as of December 31, 2022. The mortgage reserve fund schedule (based on estimated interest earnings) anticipates that no monthly deposits will be required from 2023 through 2028. Beginning in 2029, the mortgage reserve fund can be reduced (i.e., the Hospital can begin withdrawing amounts from the fund) in accordance with the mortgage reserve fund schedule such that no balance will remain as of December 31, 2037.

The Mortgage Note may be prepaid in whole or in part through January 31, 2024 with a prepayment penalty of 10%, from February 1, 2024 through January 31, 2025 with a prepayment penalty of 1%, and with no penalty after January 31, 2025. The Mortgage Note and related agreements with HUD include requirements to meet certain financial and operating covenants. A regulatory agreement (the Regulatory Agreement) between the Hospital and HUD relating to the Mortgage Note requires the Hospital to annually report certain financial ratios. As of and for the year ended December 31, 2021, Management has calculated these ratios (each as defined in the Regulatory Agreement) to be as follows: (1) debt service coverage ratio of approximately 8.6, (2) current ratio of approximately 4.6, (3) average payment period of approximately 36.9 days, and (4) equity financing ratio of approximately 61.9%. Also, according to the Regulatory Agreement, the Board is required to provide HUD with a written report as to what measures are being taken to improve the Hospital's operations if the Hospital's operating loss exceeds 1.0% of total revenue, the Hospital's excess of revenue over expenses is negative, or the mortgage reserve fund has not been funded in accordance with the mortgage reserve fund schedule.

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Required principal payments on long-term obligations for the five years subsequent to December 31, 2021, and thereafter, are approximately as follows:

2022		\$ 1,032,000
2023		1,012,000
2024		1,057,000
2025		1,104,000
2026		1,055,000
Thereafter		<u>16,238,000</u>
Total		<u>\$ 21,498,000</u>

5. Patient Care Service Revenue

Patient care service revenue for the years ended December 31, 2021 and 2020, based on an allocation of the estimated transaction price with the patient by primary payor, was as follows:

	<u>2021</u>	<u>2020</u>
Medicare	\$ 30,561,864	\$ 21,046,039
Medicaid and OHP	13,816,167	11,559,083
Regence BlueCross BlueShield of Oregon	11,452,306	9,722,367
Other third-party payors	24,172,391	19,623,690
Self-pay	<u>1,391,583</u>	<u>464,404</u>
Patient care service revenue	<u>\$ 81,394,311</u>	<u>\$ 62,415,583</u>

Patient care service revenue for the years ended December 31, 2021 and 2020, based on the nature of services provided and timing of revenue recognition, was as follows:

	<u>2021</u>	<u>2020</u>
Inpatient - recognized over time	\$ 22,015,746	\$ 18,758,839
Outpatient - recognized at a point in time	<u>59,378,565</u>	<u>43,656,744</u>
Patient care service revenue	<u>\$ 81,394,311</u>	<u>\$ 62,415,583</u>

Management estimates that the net cost of charity care provided was approximately \$362,000 and \$351,000 for the years ended December 31, 2021 and 2020, respectively. These estimates were based on the Hospital's overall ratio of cost to charges in each year. For the years ended December 31, 2021 and 2020, approximately 1.7% and 2.8%, respectively, of all inpatient admissions and outpatient visits were classified as charity care. The largest proportion of services provided on a charity care basis was for emergency room and surgical services.

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6. Functional Classification of Expenses

Expenses on a functional basis for the years ended December 31, 2021 and 2020 were as follows:

	Health Care Services			Support Services	Total
	Acute	Ambulatory	Clinics	MG&A	
2021					
Salaries and benefits	\$ 13,863,491	\$ 12,894,340	\$ 16,669,230	\$ 5,155,384	\$ 48,582,445
Purchased services	1,432,173	3,398,271	306,164	1,076,715	6,213,323
Supplies	4,022,258	7,559,710	1,238,951	1,022,522	13,843,441
Depreciation	612,212	1,607,899	346,014	53,871	2,619,996
Provider tax expense	790,485	2,191,799	467,105	143,725	3,593,114
Community relations	-	-	27,870	942,581	970,451
Repairs and maintenance	163,712	467,128	7,990	2,311	641,141
Utilities	83,757	232,235	108,949	202,046	626,987
Interest	239,070	662,874	141,268	43,467	1,086,679
Insurance	167,574	464,636	99,021	30,468	761,699
Other	370,440	587,950	1,010,411	3,119,375	5,088,176
	<u>\$ 21,745,172</u>	<u>\$ 30,066,842</u>	<u>\$ 20,422,973</u>	<u>\$ 11,792,465</u>	<u>\$ 84,027,452</u>
2020					
Salaries and benefits	\$ 12,719,000	\$ 9,118,166	\$ 13,468,180	\$ 5,284,961	\$ 40,590,307
Purchased services	589,058	2,962,838	166,928	798,218	4,517,042
Supplies	3,406,596	5,401,811	1,123,073	849,653	10,781,133
Depreciation	646,186	1,449,622	345,831	55,956	2,497,595
Provider tax expense	565,595	1,568,242	334,215	102,836	2,570,888
Community relations	-	-	1,797	685,460	687,257
Repairs and maintenance	121,420	398,401	2,086	534	522,441
Utilities	87,304	242,071	106,935	188,945	625,255
Interest	260,477	722,231	153,918	47,359	1,183,985
Insurance	155,432	430,970	91,846	28,260	706,508
Other	454,845	428,581	778,557	803,777	2,465,760
	<u>\$ 19,005,913</u>	<u>\$ 22,722,933</u>	<u>\$ 16,573,366</u>	<u>\$ 8,845,959</u>	<u>\$ 67,148,171</u>

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

7. Retirement Plan

The Hospital maintains a tax-deferred retirement savings plan (the 401(k) Plan) which is available to all employees who are regularly scheduled to work at least twenty hours per week and are age nineteen or older. Employees are automatically enrolled to defer a portion of their earnings on a pre-tax basis through contributions to the 401(k) Plan. Participants who have completed one year of service are also eligible to receive Hospital contributions. For eligible participants, the Hospital may elect to match participant contributions. During the years ended December 31, 2021 and 2020, the Hospital elected to match 100% of participant contributions up to 4% and 3%, respectively, of the participant's compensation. Employees are immediately vested in their own contributions and the Hospital's contributions. Total expense incurred by the Hospital related to the 401(k) Plan during the years ended December 31, 2021 and 2020 was approximately \$1,355,000 and \$717,000, respectively.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Notes to Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

8. Commitments and Contingencies

Medical malpractice insurance

The Hospital has a claims-made basis medical malpractice insurance policy. Under this policy, medical malpractice claims reported by the Hospital to the insurance company during the policy period are covered; however, any medical malpractice claim that has been incurred but not reported (IBNR) to the insurance company during the policy period is not covered. The Hospital has recorded an estimated liability for reported and IBNR medical malpractice claims which aggregated \$162,000 and \$150,000 as of December 31, 2021 and 2020, respectively, and is included in other noncurrent liabilities in the accompanying consolidated balance sheets. Management believes that the estimated liability for reported and IBNR medical malpractice claims is adequate; however, the establishment of an estimated liability for reported and IBNR medical malpractice claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact the Hospital's reported results of operations in future periods.

Self-insured health and dental claims

The Hospital is self-insured for health and dental benefits provided to its employees (and employees' eligible family members). In conjunction with the self-insured health plan, the Hospital purchases stop-loss insurance which generally limits the Hospital's liability to \$125,000 per covered individual per year. Such benefits are provided through the Santiam Memorial Hospital Health Plan (the Health Plan) (a revocable trust fund), which is administered by a third-party administrator. The provision and accrual for estimated claims include estimates of the ultimate costs for both reported claims and IBNR claims and are based upon the estimated costs of settlement. As of December 31, 2021 and 2020, the Hospital has recorded estimated liabilities for reported and IBNR employee health and dental claims aggregating approximately \$842,000 and \$874,000, respectively, which are included in other accrued liabilities in the accompanying consolidated balance sheets. Management believes that these estimated liabilities are adequate to cover any related potential losses; however, the establishment of estimated liabilities for IBNR health and dental claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact the Hospital's reported results of operations in future periods. The Hospital's consolidated financial statements do not include the accounts of the Health Plan, as such accounts are not significant to the Hospital's consolidated financial statements.

Information technology (IT)

The Hospital has been informed by its current IT vendor that the software it uses to record patient records, patient billing, account collections, general accounting, and general hospital operations will not be supported after December 31, 2022. As a result, the Hospital will be required to transition to a new IT software system. Accordingly, in January 2022, the Hospital entered into an agreement to purchase a new electronic health records system with initial implementation costs of approximately \$6,300,000. In conjunction with this agreement, the Hospital entered into an agreement to purchase a new IT infrastructure with a cost of approximately \$596,000. Also, in March 2022, the Hospital entered into a five-year agreement to subscribe to a new general ledger accounting system with total costs of approximately \$1,400,000 over the five-year period.

Risk management

In the ordinary course of business, the Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; cyber-attacks; pandemics; errors and omissions; employee injuries and illnesses; and natural disasters. However, Management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the years ended December 31, 2021 and 2020.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Notes to Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

Regulation and litigation

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

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

9. Fair Value Measurements

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

- Level 1: Fair value of the asset or liability is determined using observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Fair value of the asset or liability is determined using inputs other than quoted prices that are observable for the applicable asset or liability, either directly or indirectly, such as quoted prices for similar (as opposed to identical) assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and
- Level 3: Fair value of the asset or liability is determined using unobservable inputs that are significant to the fair value measurement and reflect the organization's own assumptions regarding the applicable asset or liability.

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

As of December 31, 2021 and 2020, the Hospital's financial assets measured at fair value on a recurring basis were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2021				
Long-term investments	\$ 1,638,837	\$ -	\$ -	\$ 1,638,837
	<u>\$ 1,638,837</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,638,837</u>
2020				
Long-term investments	\$ 1,796,828	\$ -	\$ -	\$ 1,796,828
	<u>\$ 1,796,828</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,796,828</u>



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Independent Auditors' Report on Supplementary Information

To the Board of Directors of
Santiam Memorial Hospital, dba Santiam Hospital

We have audited the consolidated financial statements of Santiam Memorial Hospital and subsidiary, collectively doing business as "Santiam Hospital," as of and for the years ended December 31, 2021 and 2020, and our report thereon dated April 12, 2022, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information, as listed in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

DELAP LLP

April 12, 2022

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Summary of Operations

Years Ended December 31, 2021 and 2020

Comparative Summary

The following schedule compares operations for the years ended December 31, 2021 and 2020. The per adjusted patient day amounts include both inpatient and outpatient revenue and expenses and include an adjustment to patient days for the effect of outpatient revenue:

	2021			2020			2021 as Compared to 2020	
	Amount	Per Adjusted Patient Day	% of Total Revenue	Amount	Per Adjusted Patient Day	% of Total Revenue	Increase (Decrease)	% Increase (Decrease)
Revenue								
Patient care service revenue	\$ 81,394,311	\$ 3,777	88 %	\$ 62,415,583	\$ 4,772	85 %	\$ 18,978,728	30 %
Government grant revenue	5,393,368	250	6	9,009,412	689	12	(3,616,044)	(40)
Other revenue	3,185,916	148	3	2,443,865	187	3	742,051	30
Net assets released from restrictions - satisfaction of program restrictions	2,341,130	109	3	72,505	5	-	2,268,625	3,129
Total revenue	92,314,725	4,284	100	73,941,365	5,653	100	18,373,360	25
Expenses								
Salaries, payroll taxes, and employee benefits	48,582,445	2,254	53	40,590,307	3,103	55	7,992,138	20
Other operating departments' expenses	19,723,761	915	21	15,204,356	1,162	21	4,519,405	30
Other service departments' expenses	1,697,678	79	2	1,583,259	121	2	114,419	7
Other expenses	10,316,893	479	11	6,088,669	466	8	4,228,224	69
Interest	1,086,679	50	1	1,183,985	91	2	(97,306)	(8)
Depreciation	2,619,996	122	3	2,497,595	191	3	122,401	5
Total expenses	84,027,452	3,899	91	67,148,171	5,134	91	16,879,281	25
Operating Income	\$ 8,287,273	\$ 385	9 %	\$ 6,793,194	\$ 519	9 %	\$ 1,494,079	22 %
Total patient days, excluding newborns and swing beds		4,655			3,253			
Total adjusted patient days, excluding newborns and swing beds		21,551			13,080			

The independent auditors' report on supplementary information should be read with the supplementary schedules.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Gross Patient Care Service Revenue Years Ended December 31, 2021 and 2020

	2021			2020		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Daily patient revenue						
Nursing	\$ 6,897,895	\$ 715,170	\$ 7,613,065	\$ 4,340,306	\$ 715,761	\$ 5,056,067
Intensive care unit	3,271,250	-	3,271,250	2,506,780	-	2,506,780
Nursery	296,590	-	296,590	269,665	-	269,665
Medical/surgical	65,579	114,437	180,016	74,426	224,558	298,984
	<u>10,531,314</u>	<u>829,607</u>	<u>11,360,921</u>	<u>7,191,177</u>	<u>940,319</u>	<u>8,131,496</u>
Other nursing services						
Surgery and recovery room	8,143,783	24,689,219	32,833,002	9,870,303	11,733,884	21,604,187
Labor and delivery	613,272	167,518	780,790	557,699	89,109	646,808
Emergency	1,977,164	22,278,215	24,255,379	1,720,995	17,829,023	19,550,018
SHOTS	-	2,206,727	2,206,727	-	2,711,916	2,711,916
	<u>10,734,219</u>	<u>49,341,679</u>	<u>60,075,898</u>	<u>12,148,997</u>	<u>32,363,932</u>	<u>44,512,929</u>
Other professional services						
Laboratory	3,194,641	15,324,189	18,518,830	2,435,012	12,387,863	14,822,875
Radiology	3,209,336	27,797,766	31,007,102	2,630,367	22,218,047	24,848,414
Pharmacy	3,494,269	7,026,768	10,521,037	2,615,246	4,174,979	6,790,225
Hospitalists	1,516,936	172,685	1,689,621	1,112,375	174,236	1,286,611
Anesthesiology	434,279	1,319,523	1,753,802	495,651	776,683	1,272,334
Respiratory therapy	2,277,645	2,173,676	4,451,321	2,206,915	1,151,142	3,358,057
Physical therapy	534,080	263,979	798,059	511,489	80,990	592,479
Nutritional therapy	-	61,070	61,070	-	56,999	56,999
Ambulance	-	3,455,554	3,455,554	-	3,004,101	3,004,101
Clinics	-	22,632,378	22,632,378	-	17,367,539	17,367,539
	<u>14,661,186</u>	<u>80,227,588</u>	<u>94,888,774</u>	<u>12,007,055</u>	<u>61,392,579</u>	<u>73,399,634</u>
Total Gross Patient Care Service Revenue	<u>\$ 35,926,719</u>	<u>\$ 130,398,874</u>	<u>\$ 166,325,593</u>	<u>\$ 31,347,229</u>	<u>\$ 94,696,830</u>	<u>\$ 126,044,059</u>

The independent auditors' report on supplementary information should be read with the supplementary schedules.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Operating Departments' Expenses Years Ended December 31, 2021 and 2020

	2021			2020		
	Salaries, Benefits, and Payroll Taxes	Other	Total	Salaries, Benefits, and Payroll Taxes	Other	Total
Daily patient services						
Nursing	\$ 8,163,308	\$ 1,466,375	\$ 9,629,683	\$ 6,711,690	\$ 738,141	\$ 7,449,831
Intensive Care Unit	230,343	48,463	278,806	192,718	45,436	238,154
Nursery	-	76,519	76,519	-	77,781	77,781
Medical/surgical	-	837,914	837,914	-	1,299,250	1,299,250
	<u>8,393,651</u>	<u>2,429,271</u>	<u>10,822,922</u>	<u>6,904,408</u>	<u>2,160,608</u>	<u>9,065,016</u>
Other nursing services						
Surgery and recovery room	2,792,415	3,964,247	6,756,662	2,262,799	2,390,175	4,652,974
Labor and delivery	210,257	109,816	320,073	161,103	96,574	257,677
Emergency	901,573	2,659,762	3,561,335	664,176	2,506,897	3,171,073
SHOTS	844,678	78,695	923,373	356,709	71,508	428,217
	<u>4,748,923</u>	<u>6,812,520</u>	<u>11,561,443</u>	<u>3,444,787</u>	<u>5,065,154</u>	<u>8,509,941</u>
Other professional services						
Laboratory	2,150,267	3,096,186	5,246,453	1,600,985	2,391,770	3,992,755
Radiology	3,008,218	834,735	3,842,953	2,560,989	691,002	3,251,991
Pharmacy	1,515,706	2,072,578	3,588,284	1,035,884	1,697,331	2,733,215
Hospitalists	1,671,540	789,245	2,460,785	1,883,154	379,193	2,262,347
Anesthesiology	1,110,843	290,759	1,401,602	1,461,360	57,605	1,518,965
Respiratory therapy	763,642	97,767	861,409	656,045	75,786	731,831
Physical therapy	-	264,686	264,686	-	213,724	213,724
Ambulance	1,054,638	264,968	1,319,606	814,800	256,451	1,071,251
Clinics	16,614,615	2,771,046	19,385,661	13,407,243	2,215,732	15,622,975
	<u>27,889,469</u>	<u>10,481,970</u>	<u>38,371,439</u>	<u>23,420,460</u>	<u>7,978,594</u>	<u>31,399,054</u>
Total Operating Departments' Expenses	<u>\$ 41,032,043</u>	<u>\$ 19,723,761</u>	<u>\$ 60,755,804</u>	<u>\$ 33,769,655</u>	<u>\$ 15,204,356</u>	<u>\$ 48,974,011</u>

The independent auditors' report on supplementary information should be read with the supplementary schedules.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Service Departments' Expenses and Administrative and General Expenses

Years Ended December 31, 2021 and 2020

	2021			2020		
	Salaries, Benefits, and Payroll Taxes	Other	Total	Salaries, Benefits, and Payroll Taxes	Other	Total
Service departments' expenses						
Medical records	\$ 915,507	\$ 169,839	\$ 1,085,346	\$ 847,948	\$ 173,229	\$ 1,021,177
Dietary and cafeteria	711,964	447,804	1,159,768	666,139	401,363	1,067,502
Operation and maintenance of plant	420,112	906,754	1,326,866	468,747	850,988	1,319,735
Environmental services	527,742	73,870	601,612	575,815	137,293	713,108
Laundry and linen	-	99,411	99,411	-	20,386	20,386
Total Service Departments' Expenses	\$ 2,575,325	\$ 1,697,678	\$ 4,273,003	\$ 2,558,649	\$ 1,583,259	\$ 4,141,908

	2021	2020
Administrative and general expenses		
Salaries and wages	\$ 3,683,713	\$ 2,696,431
Employee benefits	1,032,655	1,355,057
Payroll taxes	258,709	210,515
Provider tax expense	3,593,113	2,570,888
Santiam Canyon Wildfire Relief Fund distributions	2,328,496	72,505
Professional fees	1,076,715	798,218
Community relations	942,581	685,460
Office supplies and rental	917,951	707,389
Insurance and bonding	486,993	484,226
Electronic health records training and consulting	361,199	429,622
Telephone	186,817	173,072
Physician	176,879	60,555
Education	117,146	11,513
Postage and stationery	65,474	36,340
Other	63,529	58,881
Total Administrative and General Expenses	\$ 15,291,970	\$ 10,350,672

The independent auditors' report on supplementary information should be read with the supplementary schedules.



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

To the Board of Directors of
Santiam Memorial Hospital, dba Santiam Hospital

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (GAS), the consolidated financial statements of Santiam Memorial Hospital (an Oregon nonprofit corporation) and subsidiary, collectively doing business as "Santiam Hospital" (the Hospital), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 12, 2022.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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



The Hospital's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with GAS in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DELAP LLP

Lake Oswego, Oregon
April 12, 2022



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Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors of
Santiam Memorial Hospital, dba Santiam Hospital

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the compliance of Santiam Memorial Hospital (an Oregon nonprofit corporation) and subsidiary, collectively doing business as "Santiam Hospital" (the Hospital), with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2021. The Hospital's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Hospital's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, GAS, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the



compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Hospital's compliance with the requirements of each major federal program as a whole.

In performing an audit with GAAS, GAS, and the Uniform Guidance, we:

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

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

Report on Internal Control over Compliance

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

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

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

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

DELAP LLP

Lake Oswego, Oregon
April 12, 2022

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Schedule of Expenditures of Federal Awards Year Ended December 31, 2021

Federal Grantor/Pass-through Grantor/Program Title	Pass-through Entity Identifying Number	Federal Assistance Listing Number	Total Federal Expenditures
U.S. Department of Housing and Urban Development			
Section 242 - Mortgage Insurance for Hospitals	n/a	14.128	\$ 22,362,709
Total U.S. Department of Housing and Urban Development			<u>22,362,709</u>
U.S. Department of Health and Human Services			
Passed-through Oregon Health Authority:			
COVID-19 Epidemiology and Laboratory Capacity for Prevention and Control of Emerging Infectious Diseases	unknown	93.323	958,947
Passed-through Oregon Office of Rural Health:			
COVID-19 Small Rural Hospital Improvement Program	unknown	93.301	258,376
COVID-19 Provider Relief Fund General Distribution – Period 1	n/a	93.498	1,033,353
COVID-19 Provider Relief Fund Safety Net Hospitals Distribution – Period 1	n/a	93.498	5,000,000
COVID-19 Provider Relief Fund Rural Distribution – Period 1	n/a	93.498	619,519
COVID-19 Rural Health Clinic Vaccine Confidence Program	n/a	93.912	89,538
COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	n/a	93.461	53,219
COVID-19 Testing and Mitigation for Rural Health Clinics	n/a	93.697	839,338
Total U.S. Department of Health and Human Services			<u>8,852,290</u>
U.S. Department of Homeland Security			
Passed-through St Vincent De Paul:			
Disaster Assistance Projects	unknown	97.088	60,539
Total U.S. Department of Homeland Security			<u>60,539</u>
Total expenditures of federal awards			<u>\$ 31,275,538</u>

No federal awards were passed through to subrecipients.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2021

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Santiam Memorial Hospital and subsidiary, collectively doing business as "Santiam Hospital" (the Hospital), under programs of the federal government for the year ended December 31, 2021. The information in the Schedule is presented in accordance with the requirements of Title 2, *U.S. Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to, and does not, present the consolidated balance sheet, statement of operations, changes in net assets, or cash flows of the Hospital.

2. Summary of Significant Accounting Policies

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

3. Indirect Cost Rate

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

4. Loan Guarantee Program

The United States Department of Housing and Urban Development has insured certain mortgage loan borrowings undertaken by the Hospital in connection with capital projects and has imposed continuing compliance requirements. The balance of the insured loan and the related transactions are reported in the Hospital's basic consolidated financial statements. The guaranteed loan was fully drawn down in December 2014 and remains outstanding as of December 31, 2021. The outstanding balance of the guaranteed loan at the beginning of 2021 totaling \$22,362,709 is included in the federal expenditures presented in the Schedule.

The outstanding balance of the guaranteed loan totaled \$21,434,792 as of December 31, 2021.

5. Provider Relief Funding

During the years ended December 31, 2021 and 2020, the Hospital was the recipient of funds under the CARES Act Provider Relief Fund program. In accordance with guidance provided in the OMB 2 CFR Part 200 Compliance Supplement (the Compliance Supplement), amounts received prior to December 31, 2020 are reflected, to the extent utilized, in the Schedule for the year ended December 31, 2021. The Hospital received additional funds under the Provider Relief Fund program subsequent to December 31, 2020, and such amounts will be reflected, to the extent utilized, in subsequent Schedules as determined by the Compliance Supplement to be published in 2022.

6. Noncash Assistance

The Hospital did not receive any noncash assistance during the year ended December 31, 2021.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Schedule of Findings and Questioned Costs Year Ended December 31, 2021

Section 1 - Summary of Auditors' Results

Consolidated Financial Statements

1. Type of auditors' report issued on whether the audited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America - **unmodified**
2. Significant deficiency(ies) in internal control identified in the audit of the consolidated financial statements - **see finding 2021-001**
3. Material weakness(es) in internal control identified in the audit of the consolidated financial statements - **none**
4. Noncompliance that is material to the consolidated financial statements noted - **none**

Federal Awards

5. Significant deficiency(ies) in internal control over major federal programs identified in the audit - **none reported**
6. Material weakness(es) in internal control over major federal programs identified in the audit - **none**
7. The type of auditors' report issued on compliance for major federal programs - **unmodified**
8. Audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) - **none**

Identification of Major Federal Programs

- **U.S. Department of Housing and Urban Development, Section 242 - Mortgage Insurance for Hospitals (Assistance Listing No. 14.128)**
 - **U.S. Department of the Health and Human Services, COVID-19 Provider Relief Fund (Assistance Listing No. 93.498)**
 - **U.S. Department of Health and Human Services, COVID-19 Epidemiology and Laboratory Capacity for Infectious Diseases (Assistance Listing No. 93.323)**
 - **U.S. Department of Health and Human Services, COVID-19 Testing and Mitigation for Rural Health Clinics (Assistance Listing No. 93.697)**
9. Dollar threshold used to distinguish between Type A and Type B programs - **\$750,000**
 10. Is the auditee qualified as a low-risk auditee under 2 CFR 200.520? - **yes**

Section 2 - Consolidated Financial Statement Findings

11. Findings relating to the consolidated financial statements reported in accordance with *Government Auditing Standards* - **see finding 2021-001**

Section 3 - Federal Award Findings and Questioned Costs

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

**Santiam Memorial Hospital and Subsidiary
dba Santiam Hospital**
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2021

Finding 2021-001: Patient Accounts Receivable Allowances

Type of finding:	Consolidated financial statement finding - significant deficiency
Criteria:	Management is responsible for establishing and maintaining effective internal control over financial reporting.
Condition:	The estimate of patient accounts receivable contractual and other allowances is required to record patient accounts receivable at the proper transaction price. However, the estimate of the patient accounts receivable contractual and other allowances was overstated as of December 31, 2021. In addition, we noted that unapplied credits related to the Clinics' patient accounts receivable and patient accounts receivable older than 120 days had increased significantly from the prior year.
Effect:	Contractual and other allowances were overstated as of December 31, 2021. Accordingly, an audit adjustment was proposed and recorded to increase patient accounts receivable and revenue by approximately \$374,000. This was primarily due to the manner in which capitation revenue was recorded which made the contractual allowances originally appear reasonable, because they were offset by capitation revenue.
Cause:	During the month-end review, Management focused its review on net patient service revenue for the Clinics which appeared reasonable due to the manner in which capitation revenue was being recorded.
Recommendation:	We recommend that the Hospital closely monitor the Clinics' patient accounts receivable so that coding, billing, and collecting stays relatively current and that the allowances are calculated consistent with the Clinics' recent collection history.
Views of responsible parties:	Management acknowledges the finding and will closely monitor the Clinics' patient accounts receivable so that coding, billing, and collecting stay relatively current and that the allowances are calculated consistent with the Clinics' recent collection history.

Santiam Memorial Hospital and Subsidiary dba Santiam Hospital

Summary Schedule of Prior Audit Findings Year Ended December 31, 2021

Finding 2020-001: Quarterly Financial and Statistical Reports Submissions

Federal Agency:	U.S. Department of Housing and Urban Development
Federal Program Title:	Section 242 - Mortgage Insurance for Hospitals
Type of Finding:	Noncompliance with Federal Award
Criteria:	Financial and statistical reports shall be submitted to the U.S. Department of Housing and Urban Development (HUD) within 40 days of the close of the period. Reports shall be submitted on a quarterly basis under the Regulatory Agreement for HUD Section 242, Nonprofit Hospitals, within 40 days of the close of the quarter.
Condition:	The Hospital did not submit the March 31, 2020 quarterly financial and statistical reports to HUD within 40 days of the close of the quarter. However, the Hospital did ultimately submit the March 31, 2020 quarterly financial and statistical reports to HUD.
Context:	The March 31, 2020 quarterly financial and statistical reports were not submitted timely to HUD.
Effect:	The Hospital was not in compliance with the Regulatory Agreement for HUD Section 242, Nonprofit Hospitals.
Cause:	The Hospital inadvertently forgot to submit the March 31, 2020 quarterly financial and statistical reports within 40 days of the close of the quarter to HUD amidst a change in executive leadership and the start of a global pandemic.
Views of responsible parties:	Management acknowledges the finding and will submit quarterly financial and statistical reports to HUD timely in the future.
Corrective actions taken or planned:	Management acknowledged the finding and submitted quarterly financial and statistical reports timely during the year ended December 31, 2021.

CORRECTIVE ACTION PLAN

Year Ended December 31, 2021

<u>Reference Number:</u>	2021-001
<u>Finding:</u>	Patient Accounts Receivable
<u>Criteria:</u>	Management is responsible for establishing and maintaining effective internal control over financial reporting.
<u>Condition:</u>	The estimate of patient accounts receivable contractual and other allowances is required to record patient accounts receivable at the proper transaction price. However, the estimate of patient accounts receivable contractual and other allowances was overstated as of December 31, 2021. In addition, it was noted that unapplied credits related to the Clinics' patient accounts receivable and patient account receivable older than 120 days had increased significantly from the prior year.
<u>Context:</u>	The estimate of patient accounts receivable contractual and other allowances was overstated as of December 31, 2021.
<u>Effect:</u>	Contractual and other allowances were overstated as of December 31, 2021. Accordingly, an audit adjustment was proposed and recorded to increase patient account receivable and revenue by approximately \$374,000. This was primarily due to the manner in which capitation revenue was recorded which made the contractual allowances originally appear reasonable, because they were offset by capitation revenue.
<u>Cause:</u>	During month-end review, Management focused its review on net patient service revenue for the Clinics, which appeared reasonable due to the manner in which capitation revenue was being recorded.
<u>Recommendation:</u>	We recommend that the Hospital closely monitor the Clinics' patient accounts receivable so that coding, billing, and collecting stays relatively current and that the allowances are calculated consistent with the Clinics' recent collection history.
<u>Contact:</u>	Rachael Seeder, Chief Financial Officer
<u>Corrective Actions Taken or Planned:</u>	Management acknowledges the finding. The Hospital will closely monitor the Clinics' patient accounts receivable so that coding, billing, and collecting stay relatively current and that the allowances are calculated consistent with the Clinics' recent collection history.