COMMUNICATIONS WITH THE BOARD OF DIRECTORS

SKY LAKES MEDICAL CENTER

September 30, 2022

MOSSADAMS

Communications with Those Charged with Governance

To the Board of Directors of
Sky Lakes Medical Center and Affiliates

We have audited the consolidated financial statements of Sky Lakes Medical Center and Affiliates (the Medical Center) as of and for the year ended September 30, 2022, and have issued our report thereon dated January 11, 2023. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated January 3, 2023, we are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the consolidated financial statements does not relieve you or management of your responsibilities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). As part of an audit conducted in accordance with U.S. GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit.

An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sky Lakes Medical Center and Affiliate's internal control over financial reporting. Accordingly, we considered Sky Lakes Medical Center and Affiliate's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the consolidated financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in the engagement letter dated January 3, 2023.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Sky Lakes Medical Center are described in Note 1 to the consolidated financial statements. No new accounting policies were adopted and there were no changes in the application of existing policies during 2022. We noted no transactions entered into by the Entity during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the consolidated financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were:

- Net patient receivables are based on management's estimates of collectability. We reviewed the methodology and determined that the allowances are reasonable.

- Amounts due to or from third parties are determined based on completion of the Medical Center's cost report and intermediary reviews thereon. We reviewed the estimates for consistency with prior years and for reasonableness.

- The useful lives of fixed assets have been estimated based upon the intended use and are within the American Hospital Association and Medicare guidelines.

- Management's estimate of the fair value of investments is based on quoted market prices for those or similar investments, or on financial information received from the asset managers. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

- Management's estimate on the determination of Provider Relief funds recognized in revenue of $10,593,000.

Financial Statement Disclosures

The disclosures in the consolidated financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

- Disclosure of Subsidiaries and Related Parties – Note 1 and 15

- Disclosure of Net Patient Service Revenue – Note 1 and 2

- Disclosure of Investments – Note 5

- Disclosure of Long-term Debt – Note 10

- Disclosure of the CARES Act provisions, Provider Relief Funds received, and the impact on the Medical Center's operations, reporting and other compliance requirements – Note 11

- Disclosure of the COVID-19 pandemic – Note 14

Significant Unusual Transactions

We encountered no significant unusual transactions during our audit of the Entity's financial statements.

Significant Difficulties Encountered in Performing the Audit

Professional standards require us to inform you of any significant difficulties encountered in performing the audit. No significant difficulties were encountered during our audit of the Entity's financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Circumstances that Affect the Form and Content of the Auditor's Report

There were no circumstances that affected the form and content of the auditor's report.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

- *There was a proposed adjustment related to current year and prior year late charges that would have increased net patient accounts receivable, increased beginning net assets, and decreased net patient revenue. As the amount was not material to the financial statements, we concurred with management's decision not to record the entry*.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 11, 2023.

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Entity’s consolidated financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Audit Findings or Issues

We are required to communicate to you other findings or issues arising from the audit that are, in our professional judgment, significant and relevant to your oversight of the financial reporting process. There were no such items identified.

Moss Adams LLP

Portland, Oregon
January 11, 2023

MOSSADAMS

REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

SKY LAKES MEDICAL CENTER AND AFFILIATES

September 30, 2022 and 2021

Table of Contents

Report of Independent Auditors

To the Board of Directors
Sky Lakes Medical Center

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Sky Lakes Medical Center and Affiliates (the Medical Center), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, 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 financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Medical Center as of September 30, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, 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 Medical Center'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 Medical Center's ability to continue as a going concern for a reasonable period of time.

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

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating balance sheet, consolidating statement of operations, consolidating changes in net assets, combining balance sheet – obligated group, combining statement of operations – obligated group, and combining statement of changes in net assets – obligated group included on pages 35–42 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we express no opinion on it.

Moss Adams LLP

Portland, Oregon
January 11, 2023

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Sky Lakes Medical Center and Affiliates
Consolidated Balance Sheets

ASSETS

	September 30, 2022	September 30, 2021
CURRENT ASSETS		
Cash and cash equivalents	$ 18,447,000	$ 52,777,000
Patient accounts receivable, net	35,727,000	36,790,000
Other receivables	5,997,000	6,142,000
Risk pool withhold receivable	8,977,000	9,789,000
Supplies inventories	7,416,000	6,977,000
Prepaid expenses	5,593,000	4,537,000
Promises to give, current portion	750,000	750,000
Total current assets	82,907,000	117,762,000
ASSETS LIMITED AS TO USE	1,440,000	1,579,000
PROPERTY AND EQUIPMENT, net	136,776,000	137,180,000
INVESTMENTS	202,120,000	207,492,000
OTHER ASSETS	1,011,000	1,067,000
Total assets	$ 424,254,000	$ 465,080,000

See accompanying notes.

LIABILITIES AND NET ASSETS

	September 30, 2022	September 30, 2021
CURRENT LIABILITIES		
Accounts payable	$ 9,601,000	$ 9,139,000
Accrued payroll	8,725,000	13,668,000
Accrued compensated absences	6,518,000	6,559,000
Accrued interest payable	241,000	239,000
Other accrued expenses	16,610,000	19,674,000
Estimated third-party payor settlements	1,838,000	12,218,000
Current advance and refund liabilities	-	25,729,000
Capital lease obligations, current portion	422,000	192,000
Long-term debt, current portion	4,442,000	4,269,000
Total current liabilities	48,397,000	91,687,000
LONG-TERM LIABILITIES		
Capital lease obligations, net of current portion	5,650,000	3,771,000
Long-term debt, net of current portion and deferred financing costs	60,776,000	64,092,000
Other long-term liabilities	6,832,000	6,817,000
Total long-term liabilities	73,258,000	74,680,000
Total liabilities	121,655,000	166,367,000
NET ASSETS		
Without donor restrictions		
Sky Lakes Medical Center	293,162,000	288,951,000
Non-controlling interest	1,527,000	1,479,000
Total without donor restrictions	294,689,000	290,430,000
With donor restrictions	7,910,000	8,283,000
Total net assets	302,599,000	298,713,000
Total liabilities and net assets	$ 424,254,000	$ 465,080,000

See accompanying notes.

Sky Lakes Medical Center and Affiliates
Consolidated Statements of Operations

	Years Ended September 30, 2022	2021
REVENUES		
Patient service revenue	$ 287,485,000	$ 264,702,000
Other revenue	20,842,000	11,087,000
Total revenues	308,327,000	275,789,000
EXPENSES		
Salaries and benefits	139,787,000	136,284,000
Purchased services	52,819,000	32,602,000
Drugs	26,248,000	22,441,000
Supplies	20,309,000	18,212,000
Building and maintenance	16,814,000	15,070,000
Depreciation and amortization	12,013,000	12,628,000
Provider tax	15,126,000	13,664,000
Physician fees	10,253,000	9,663,000
Other	4,028,000	2,965,000
Interest expense	2,758,000	2,799,000
Insurance	1,788,000	2,376,000
Minor equipment	994,000	953,000
Professional fees	939,000	1,026,000
Rentals and lease expense	1,070,000	1,035,000
Total expenses	304,946,000	271,718,000
OPERATING INCOME	3,381,000	4,071,000
OTHER INCOME (EXPENSE)		
Investment income	4,054,000	8,041,000
Contributions	629,000	190,000
Net assets released from restriction	853,000	536,000
Other non-operating expense	(1,637,000)	(3,198,000)
Total other income, net	3,899,000	5,569,000
EXCESS OF REVENUES OVER EXPENSES	$ 7,280,000	$ 9,640,000

See accompanying notes.

	Years Ended September 30, 2022	2021
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess of revenues over expenses	$ 7,280,000	$ 9,640,000
Contributions	11,000	103,000
Net change in unrealized gains and losses on other-than-trading securities	(3,032,000)	3,085,000
Increase in net assets without donor restrictions	4,259,000	12,828,000
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	1,835,000	1,077,000
Net change in unrealized gains and losses on other-than-trading securities	(1,547,000)	1,052,000
Investment income	192,000	476,000
Net assets released from restrictions	(853,000)	(536,000)
Increase (decrease) in net assets with donor restrictions	(373,000)	2,069,000
CHANGE IN NET ASSETS	3,886,000	14,897,000
NET ASSETS, beginning of year	298,713,000	283,816,000
NET ASSETS, end of year	$ 302,599,000	$ 298,713,000

Sky Lakes Medical Center and Affiliates
Consolidated Statements of Cash Flows

	Years Ended September 30, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,886,000	$ 14,897,000
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	12,013,000	12,628,000
Net amortization of premiums and accretion of discounts on investments held-to-maturity	995,000	649,000
Net amortization of premiums and accretion of discounts on bonds	(303,000)	(275,000)
Net amortization of deferred financing costs	54,000	53,000
Net change in unrealized gains and losses on other-than-trading securities	4,579,000	(4,137,000)
Gain on sale of investments	(3,946,000)	(3,796,000)
Net change in the cash surrender value of corporate owned life insurance	2,022,000	(14,600,000)
Contributions to non-controlling interest	(11,000)	(103,000)
(Increase) decrease in		
Patient accounts receivable, net	1,063,000	(7,608,000)
Other receivables	145,000	(259,000)
Risk pool withhold receivable	812,000	(4,635,000)
Supplies inventories	(439,000)	(611,000)
Prepaid expenses	(1,056,000)	(885,000)
Other assets	56,000	56,000
Receivable related to collaborative healthcare building	139,000	(1,000)
Increase (decrease) in		
Accounts payable	462,000	2,845,000
Accrued payroll	(4,943,000)	3,252,000
Accrued compensated absences	(41,000)	768,000
Accrued interest payable	2,000	(19,000)
Advance and refund liabilities	(25,729,000)	(6,713,000)
Other accrued expenses	(3,064,000)	7,853,000
Estimated third-party payor settlements	(10,380,000)	9,551,000
Other long-term liabilities	15,000	(326,000)
Net cash from operations	(23,669,000)	8,584,000

See accompanying notes.

	Years Ended September 30,	
	2022	2021
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/redemption of investments	$ 21,527,000	$ 33,017,000
Purchase of investments	(17,441,000)	(35,096,000)
Purchase of corporate owned life insurance	(2,364,000)	(12,648,000)
Redemption of certificates of deposit	-	419,000
Purchase of property and equipment	(11,609,000)	(8,137,000)
Net cash flows used in investing activities	(9,887,000)	(22,445,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of new loan	3,775,000	-
Payments on long-term debt	(4,411,000)	(4,100,000)
Payment on capital lease obligations	(149,000)	(814,000)
Contributions from non-controlling interest	11,000	103,000
Net cash flows from financing activities	(774,000)	(4,811,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(34,330,000)	(18,672,000)
CASH AND CASH EQUIVALENTS, beginning of year	52,777,000	71,449,000
CASH AND CASH EQUIVALENTS, end of year	$ 18,447,000	$ 52,777,000

Cash paid for interest, as of September 30, 2022 and 2021 was approximately $2,961,000 and $2,818,000, respectively.

Note 1 – Description of Organization and Summary of Significant Accounting Policies

Organization

Sky Lakes Medical Center (the Medical Center) is a not-for-profit hospital located in south-central Oregon. The Medical Center provides inpatient, outpatient, and emergency care services to the residents of Southern Oregon and Northern California. The Medical Center was incorporated in Oregon in 1963.

Principles of consolidation

The consolidated financial statements include the accounts of the Medical Center and all of its wholly-owned and majority-owned subsidiaries. There are four other entities included in these consolidated financial statements:

West Physician Services, LLC dba Sky Lakes Physician Services (WPS) – West Physician Services, LLC dba Sky Lakes Physician Services was established by the Medical Center in 2003 to provide specialty care to patients. The Medical Center is the sole member of WPS.

Sky Lakes Medical Center Foundation, Inc. (the Foundation) – Sky Lakes Medical Center Foundation is a not-for-profit corporation formed to advance the work of the Medical Center through philanthropy. The Foundation is led by a board of directors who serve voluntarily and are elected by the Medical Center.

Klamath Medical Business Center, LLC (KMBC) – In 2004, the Medical Center, together with Cascade Comprehensive Care, Inc. (CCC), formed Klamath Medical Business Center, LLC. The Medical Center directly owns 50% of KMBC. In addition, they indirectly own approximately 17% through their ownership in CCC (Note 5). In addition, the Medical Center performs management functions for KMBC. KMBC exists for the purpose of leasing building facilities to the Medical Center and CCC.

KW Campus, LLC (KW) – In 2015 the Medical Center, together with an unrelated limited liability entity formed KW Campus, LLC. KW was formed to develop a central campus in Klamath Falls, Oregon that is home to a variety of organizations whose purpose is to deliver health care, wellness and safety services, and provide opportunities for those served to improve their lives through effort and reward as part of their journey to self-sufficiency. The Medical Center directly owns 50% of KW and performs some of the management functions for KW.

All significant intercompany transactions have been eliminated.

Basis of presentation

The accompanying consolidated financial statements are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and in accordance with the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958, *Not-for-Profit Entities.* The Medical Center has implemented ASC 958 and has adjusted the presentation in these consolidated financial statements, accordingly, including changes to the presentation of net asset classification on the financial statements, inclusion of information about liquidity and availability of resources (Note 16), and inclusion of information provided about expenses (Note 17). Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of estimates
The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates are necessary in determining the fair value of investments, the recorded value of the contractual and bad debt allowance, amount due to or from third parties, risk pool withhold receivable and useful lives of fixed assets. Management believes the assumptions used in arriving at these estimates are reasonable.

Fair value measurements
Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Market participants are buyers and sellers, who are independent, knowledgeable, and willing and able to transact in the principal (or most advantageous) market for the asset or liability being measured.

Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, management determines the fair value of the Medical Center's assets and liabilities using valuation models or third-party pricing services, both of which rely on market-based parameters when available, such as interest rate yield curves, option volatilities, and credit spreads. The valuation techniques used are based on observable and unobservable inputs.

The following methods and assumptions were used by the Medical Center in estimating fair values of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents – The carrying amount approximates the fair value because of the short maturity of those instruments.

Long-term debt – Long-term debt is estimated by discounting future cash flows at rates currently available for debt with similar terms and remaining maturities. The carrying amount approximates the fair value.

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Cash and cash equivalents
Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. Financial instruments potentially subjecting the Medical Center to concentrations of credit risk consist primarily of bank demand deposits in excess of FDIC insured limits. The Medical Center has not experienced any losses in such accounts.

Certificates of deposit
Certificates of deposit are held at various financial institutions and range in maturity through September 2022 and bear an interest rate of 0.95%. Certificates of deposit are not subject to withdrawal limitations and are classified as current assets. Early withdrawal may result in a forfeiture of interest earned.

Patient accounts receivable
In evaluating the collectability of receivables, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Patient accounts receivables are reduced by an allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, the Medical Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The Medical Center’s allowance for contractual adjustments was approximately $63,507,000 and $72,912,000 at September 30, 2022 and 2021, respectively. The Medical Center’s bad debt provision was $15,993,000 and $13,821,000 at September 30, 2022 and 2021, respectively. There was no change in the methodology used by the Medical Center to estimate the allowance for contractual adjustments and bad debt provision in the current year.

The mix of gross receivables from patients and third-party payors was as follows at September 30:

	2022	2021
Medicare	39%	36%
Medicaid	21%	25%
Other third-party payors	36%	35%
Self-pay	4%	4%
Total	100%	100%

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Other receivables
Other receivables consist mainly of the receivable from provider tax receivable, employee loan receivables, physician loan receivables, and other miscellaneous receivables. These receivables are reduced by an allowance for doubtful accounts determined on a specific reserve basis.

Risk pool withhold receivable
The risk pool withhold receivable represents funds withheld from claims paid to the providers. Based upon carrier's performance, the funds are either retained by the insurer or paid to the Medical Center.

Supplies inventories
Supplies inventories consist mainly of patient supplies and pharmaceuticals and are carried at the lower of cost (primarily average cost) or net realizable value.

Promises to give
Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promise becomes unconditional.

Assets limited as to use
Assets limited as to use include assets held by trustees under indenture agreements (Note 4).

Property and equipment
Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained; expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Investments
Investments in equity securities with readily determinable fair values and all investments that are available-for-sale are measured at fair value on the balance sheet. Investment securities that management has the positive intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the effective interest method over the period remaining until maturity. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

The Medical Center has purchased various cash-surrender value life insurance policies on key management. The policies are recorded at the estimated cash-surrender value of the policies. Increases in the cash-surrender value are recorded as investment income.

The Medical Center also has various investments in health-related organizations. Generally, when the ownership interest in health-related activities is more than 50%, the activities are consolidated, and a minority interest is recorded if appropriate. When the ownership interest is at least 20%, but not more than 50%, it is typically accounted for on the equity method, and the income or loss is reflected in net revenue. Activities with less than 20% ownership or lacking significant influence over the operations of the related entity are carried at the lower of cost or estimated net realizable value.

Health insurance
The Medical Center offers health insurance (the Employee Benefit Plan) to its active employees and families. The Medical Center pays approximately 80% of the premium and employees contribute the remaining 20% through bi-weekly payroll deductions. The Employee Benefit Plan provides medical, dental, vision, and prescription coverage. The Employee Benefit Plan is self-funded, but is reinsured through HM Life Insurance Company with a specific attachment point of $270,000 per covered individual annually plus a $60,000 aggregating specific with an unlimited lifetime maximum. The Medical Center has established reserve amounts based upon information as to the status of claims plus development factors for incurred but not yet reported claims and anticipated future changes in underlying case reserves. Such reserve amounts are only estimates and there can be no assurance that the Medical Center’s future Employee Benefit Plan obligations will not exceed the amount of its reserves. The Medical Center’s reserve for health insurance was approximately $3,006,000 and $2,865,000 at September 30, 2022 and 2021, respectively, and is included in accrued payroll on the consolidated balance sheet.

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Workers' compensation
The Medical Center is self-funded for workers' compensation insurance, but is reinsured through Safety National Casualty Corporation with a specific attachment point of $500,000 per claim. The Medical Center has contracted with Tristar Risk Management to act as the third-party administrator to process and pay claims. The Medical Center has established reserve amounts based upon information as to the status of claims plus development factors for incurred but not yet reported claims and anticipated future changes in underlying case reserves. Such reserve amounts are only estimates and there can be no assurance that the Medical Center's future workers' compensation obligations will not exceed the amount of its reserves. The Medical Center's reserve for workers' compensation was $531,000 and $641,000 at September 30, 2022 and 2021, respectively, and is included in accrued payroll on the consolidated balance sheet. Further, the Department of Consumer and Business Services Workers' Compensation Division requires a security deposit be maintained to support expected future claims and processing costs. As of September 30, 2022, the security deposit requirement was $665,000. To fulfill the security deposit requirement, the Medical Center has a standby letter of credit with US Bank for $665,000 with an expiration date of July 31, 2023.

Estimated malpractice costs
The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Estimated malpractice costs are included in other accrued expenses on the consolidated balance sheets and were approximately $345,000 and $767,000 as of September 30, 2022 and 2021, respectively. The Medical Center estimated $100,000 and $74,000 in receivables as of September 30, 2022 and 2021, respectively.

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Patient service revenue and accounts receivable

Patient service revenue is reported at the amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for providing patient care. These amounts, representing transaction price, are due from third-party payors (including health insurers and government programs), patients and others. Generally, the Medical Center bills the third-party payors and patients several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

The Medical Center measures the performance obligation as the time the services are performed. Because all of its performance obligations relate to contracts with a duration of less than one year, the Medical Center has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14(a) and, therefore, 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 performance obligations for these contracts are generally completed at the time of service.

The Medical Center is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to patient service revenue. The Medical Center accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. As a result, the Medical Center has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

The Medical Center has agreements with third-party payors, which include commercial insurance and preferred provider organization (PPO) contracts, managed care contracts with health maintenance organizations (HMOs), Medicare and Medicaid, and other third-party payors, that generally provide for payments to the Medical Center at amounts different from its established rates. The Medical Center recognizes revenue based on established or contracted rates, subject to certain discounts and implicit price concessions as determined by the Medical Center. The Medical Center determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Medical Center's policy, and implicit price concessions provided to patients. Implicit price concessions represent differences between amounts billed and the estimated consideration the Medical Center expects to receive from payors and patients, which are determined based on historical collection experience, current market conditions and other factors. The Medical Center determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience.

Entities doing business with governmental payors, including Medicare and Medicaid, are subject to risks unique to the government-contracting environment that is difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by the federal, state, or local governments (collectively "Government Agents"). Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received.

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Moreover, different Government Agents frequently interpret government regulations or other requirements differently. For example, Government Agents might disagree on a patient's principal medical diagnosis, the appropriate code for a clinical procedure, or many other matters. Such disagreements might have a significant effect on the ultimate payout due from the government to fully recoup sums already paid. Governmental agencies may make changes in program interpretations, requirements, or "conditions of participation," some of which may have implications for amounts previously estimated. In addition to varying interpretation and evolving codification of the regulations, standards of supporting documentation and required data are subject to wide variation.

In accordance with generally accepted accounting principles, to account for the uncertainty around Medicare and Medicaid revenues, the Medical Center estimates the amount of revenue that will ultimately be received under the Medicare and Medicaid programs. Amounts ultimately received or paid may vary significantly from these estimates.

In accordance with the terms of the Medical Center's contracts with certain managed care plans (MCPs), a percentage of the Medical Center's reimbursement is retained by the MCPs in risk pool reserves. 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 Medical Center. Conversely, for certain MCPs, to the extent that actual health care costs exceed such targets, the Medical Center must reimburse these MCPs for a portion of such excess. Consequently, the Medical Center is at risk to the extent that actual health care costs exceed target loss ratios for certain MCPs.

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance established by their insurance plans, which vary in amount. The Medical Center estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period such changes occur or it can be reasonably determined such change is probable. Adjustments arising from a change in the transaction price were not significant in the years ending September 30, 2022 and 2021.

Charity care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The policy of the Medical Center for charity care includes providing non-elective services to patients whose household income falls at or below 250% of the Federal Poverty Level at no cost. For those patients who fall between 250% and 400% of the Federal Poverty Level and who are unable to pay their bills, patients are eligible for either a partial write-off of their account, annual maximum out of pocket, or both. The policy applies to both insured patients as well as uninsured patients provided the patient meets the eligibility criteria. Total cost of charity care provided by the Medical Center was approximately $3,239,000 and $3,180,000 for the years ending September 30, 2022 and 2021, respectively.

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Donated restricted gifts
Unconditional promises to give cash and other assets to the Medical Center are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received.

The gifts are reported as net assets with donor restrictions support 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 are reclassified as without donor restrictions and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

Excess of revenues over expenses
The consolidated statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include the net change in unrealized gains and losses on investments other-than-trading securities, contributions, and distributions.

Volunteers
A significant portion of the Medical Center's gift shop operations and patient relations functions are conducted by unpaid volunteers. The value of this contributed time is not reflected in the accompanying consolidated financial statements since the volunteers' time does not meet the criteria for recognition.

Income taxes
The Medical Center and Foundation are tax-exempt organizations and are not subject to state or federal income taxes, except on unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code.

The Medical Center and Foundation had no unrecognized tax benefits at September 30, 2022 or 2021. The Medical Center and Foundation recognize interest accrued and penalties related to unrecognized tax benefits as an administrative expense. During the years ended September 30, 2022 and 2021, the Medical Center and Foundation recognized no interest and penalties.

The Medical Center files an exempt organization information return and an unrelated business income tax return in the U.S. federal jurisdiction and an unrelated business income tax return with the Oregon Department of Revenue.

The Foundation files an exempt organization information return in the U.S. federal jurisdiction.

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

WPS, the Medical Center's for-profit corporate subsidiary, accounts for income taxes in accordance with Accounting Standards Codification ("ASC") 740-10, whereby, income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. WPS has no history of sustained profitability and any deferred tax assets, net of liabilities, has been fully reserved for at September 30, 2022 and 2021.

KMBC and KW have elected to be taxed under the provisions of the Oregon Limited Liability Company Act. Under those provisions, the LLC's do not pay federal income tax on their taxable income. Instead, the members are liable for income taxes on each LLC's taxable income.

The Klamath Falls Intercommunity Hospital Authority (the Authority) is a municipal corporation under Oregon state law and is not subject to federal income tax.

Accounting standards updates

Leases – Accounting Standards Update (ASU) 2016-02 – In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which increases transparency and comparability among entities by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements in the financial statements of lessees. This update is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Medical Center is currently evaluating the impact of the provisions of ASU No. 2016-02 on the financial statements.

Subsequent events

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

The Medical Center has evaluated subsequent events through January 11, 2023, which is the date the financial statements were issued. See Note 10 for subsequent event details related to the issuance of the 2022 Series bonds.

Note 2 – Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors are as follows:

- *Medicare* – Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Medical education costs and uncollected bad debts on patient accounts related to Medicare beneficiaries are paid based on a modified cost reimbursement methodology. The Medical Center is a Medicare Designated Sole Community Hospital (SCH). As such, the Medical Center receives certain payment enhancements and protections to the hospital. For inpatient services, Sole Community Hospitals receive the higher of payments under 1) the Inpatient Prospective Payment System (IPPS) or 2) an updated hospital-specific rate (HSR), which are payments based on their costs in a base year (1982, 1987, or 1996) updated to the current year and adjusted for changes in their case mix. Since 2006, SCHs also receive an additional adjustment set at 7.1% above the Outpatient Prospective Payment System (OPPS) rate for outpatient services. Additionally, SCHs can qualify for adjustments due to decreases in inpatient volume, participation in the Hospital Value-Based Purchasing Program, and participation in the Hospital Readmissions Reduction Program. The Medical Center is reimbursed for outpatient cost reimbursable items at a tentative rate with final settlement determined after submission of the annual cost report by the Medical Center and audit thereof by the Medicare fiscal intermediary.

- Atrio Health Plans, Inc. is a for-profit Oregon health care service, of which CCC owns a minority interest (Note 5 and 14). Atrio Health Plans, Inc. provides Medicare Advantage Plans to residents primarily of Douglas, Jackson, Klamath, Marion, Josephine and Polk counties.

- *Medicaid* – Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates and outpatient services and emergency services will be reimbursed under the State's Prospective Payment System for Hospital Outpatient Department Services, using the Ambulatory Payment Classification (APC) Group methodology, and payments will be based on rates determined by State Actuarial Services. The Medical Center is reimbursed at a tentative rate with final settlement determined after submission of the annual cost report by the Medical Center and finalization of the cost report by the Oregon Division of Medical Assistance Programs (DMAP).

- CCC is a local Medicaid claims administrator of which the Medical Center owns 33% (Note 5 and 14). The Medical Center is paid on an interim basis based upon prospectively determined rates. The Medical Center also participates in a risk pool arrangement that encourages cost containment.

Entities doing business with governmental payors, including Medicare and Medicaid, are subject to risks unique to the government-contracting environment that are difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by the federal, state, or local governments (collectively "Government Agents"). Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received.

Note 2 – Net Patient Service Revenue (continued)

Moreover, different Government agencies frequently interpret government regulations or other requirements differently. For example, Government agencies might disagree on a patient's principal medical diagnosis, the appropriate code for a clinical procedure, or many other matters. Such disagreements might have a significant effect on the ultimate payout due from the government to fully recoup sums already paid. Governmental agencies may make changes in program interpretations, requirements, or "conditions of participation," some of which may have implications for amounts previously estimated. In addition to varying interpretation and evolving codification of the regulations, standards of supporting documentation and required data are subject to wide variation.

In accordance with generally accepted accounting principles, to account for the uncertainty around Medicare and Medicaid revenues, the client estimates the amount of revenue that will ultimately be received under the Medicare and Medicaid programs. Amounts ultimately received or paid may vary significantly from these estimates.

The Medical Center has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts and established charges, and prospectively determined daily rates.

	2022	2021
Other third-party payors	$ 99,350,000	$ 89,149,000
Medicare	126,920,000	119,708,000
Medicaid	59,486,000	54,254,000
Self-pay	1,729,000	1,591,000
Total net revenue	$ 287,485,000	$ 264,702,000

Note 3 – Promises to Give

Unconditional promises to give were $750,000 as of September 30, 2022 and 2021.

At September 30, 2022 and 2021, substantially all unconditional promises to give were from one donor.

Note 4 – Assets Limited as to Use

Assets held by trustees under indenture agreements for the bonds outstanding include money market accounts of $1,285,000 and $1,424,000 as of September 30, 2022 and 2021, respectively.

Note 5 – Investments

Investments at September 30 include:

	2022	2021
Corporate bonds, held-to-maturity	$ 36,697,000	$ 41,598,000
Life insurance	126,888,000	123,244,000
Money market	1,440,000	1,579,000
Common stocks	20,225,000	24,158,000
Cascade Comprehensive Care, Inc.	8,660,000	6,693,000
Mutual funds	9,071,000	11,316,000
Southern Oregon Linen Services, Inc.	579,000	483,000
	$ 203,560,000	$ 209,071,000

The reconciliation between investments on the consolidated financial statements and the above table is as follows as of September 30:

	2022	2021
Investments	$ 202,120,000	$ 207,492,000
Assets limited as to use	1,440,000	1,579,000
Certificates of deposit	-	-
	$ 203,560,000	$ 209,071,000

Note 5 – Investments (continued)

Southern Oregon Linen Service, Inc. – The Medical Center owns 12.7% of the common stock in Southern Oregon Linen Service (SOLS). SOLS was established in 1996 as a central cooperative laundry to service several regional hospitals. The Medical Center concluded that it could not exert influence over SOLS' operations and financial activities; therefore, the Medical Center is accounting for the investment on the cost method.

Cascade Comprehensive Care, Inc. – The Medical Center owns 33% of the common stock in CCC, which is accounted for using the equity method. CCC is a managed health care company that currently manages a Medicaid contract under the Oregon Health Plan. CCC handles quality assurance, utilization management, claims adjudication, pharmacy management, encounter reporting, financial and solvency reporting, physician and provider contracting, reinsurance/stoploss issues, risk model management etc. for the local community.

The following represents the unaudited summary financial information for CCC for the years ended September 30:

	2022 (unaudited)	2021 (unaudited)
Current assets	$ 56,272,000	$ 50,547,000
Noncurrent assets	13,673,000	16,178,000
Total assets	$ 69,945,000	$ 66,725,000
Current liabilities	$ 40,438,000	$ 39,065,000
Noncurrent liabilities	7,187,000	10,097,000
Equity	22,320,000	17,563,000
Total liabilities and equity	$ 69,945,000	$ 66,725,000
Operating revenue	$ 129,770,000	$ 116,754,000
Operating expenses	132,419,000	105,387,000
Operating income	$ (2,649,000)	$ 11,367,000

Note 6 – Fair Value Measurements

Financial Accounting Standards Board ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Basis of fair value measurement

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Medical Center has the ability to access.

Level 2 – Inputs to the valuation methodology are quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2022 and 2021.

Corporate bonds, held-to-maturity – Investment securities that management has the positive intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts and therefore excluded from the fair value tables. With board approval, the Company decided to liquidate $2,054,000 of corporate bonds that were previously considered Held to Maturity during 2022.

Life insurance – Valued at the estimated cash-surrender value of the policies. The carrying amount approximates fair value.

Mutual funds and money market funds – Valued at the net asset value of shares held by the Medical Center at year end using prices quoted by the relevant pricing agent.

Common stocks – Valued at the closing price reported on the active market on which the individual securities are traded.

Certificates of deposit – Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

Note 6 – Fair Value Measurements (continued)

The following tables disclose by level, the fair value hierarchy, of the Medical Center's assets at fair value at September 30, 2022:

	Fair Value Measurements			
	Total Fair Value	Level One	Level Two	Level Three
Common stock	$ 20,225,000	$ 20,223,000	$ -	$ -
Life insurance	126,888,000	126,888,000	-	-
Mutual funds	9,071,000	-	9,071,000	-
	$ 156,184,000	$ 147,111,000	$ 9,071,000	$ -

Total investments held-to-maturity, valued at cost, and investments in other healthcare entities accounted for at cost or equity as of September 30, 2022 were approximately $45,937,000.

The following tables disclose by level, the fair value hierarchy, of the Medical Center's assets at fair value at September 30, 2021:

	Fair Value Measurements			
	Total Fair Value	Level One	Level Two	Level Three
Common stock	$ 24,158,000	$ 24,158,000	$ -	$ -
Life insurance	123,244,000	123,244,000	-	-
Mutual funds	11,316,000	-	11,316,000	-
	$ 158,718,000	$ 147,402,000	$ 11,316,000	$ -

Total investments held-to-maturity, valued at cost, and investments in other healthcare entities accounted for at cost or equity as of September 30, 2021 were $48,774,000.

Note 7 – Property and Equipment

A summary of property and equipment at September 30 follows:

	2022	2021
Buildings and fixed equipment	$ 190,281,000	$ 189,009,000
Moveable equipment	89,671,000	87,349,000
Equipment under capital lease obligations	9,396,000	7,259,000
Land improvements	6,790,000	6,790,000
Land	5,284,000	5,237,000
Leasehold improvements	343,000	343,000
	301,765,000	295,987,000
Less: Accumulated depreciation and amortization	(173,991,000)	(163,885,000)
	127,774,000	132,102,000
Construction in progress	9,002,000	5,078,000
Property and equipment, net	$ 136,776,000	$ 137,180,000

Depreciation expense from operations for the years ended September 30, 2022 and 2021 was $11,570,000 and $12,024,000, respectively. Amortization expense for the years ended September 30, 2022 and 2021 was $443,000 and $604,000, respectively. Accumulated amortization for equipment under capital lease obligations was $4,755,000 and $4,678,000 at September 30, 2022 and 2021, respectively. Construction in Progress was $9,002,000 and $5,078,000 at September 30, 2022 and 2021, respectively.

Note 8 – Deferred Revenue

Plum Ridge Care Center

In 2001, Klamath County, Oregon deeded the Plum Ridge Care Center to the Authority. The Medical Center entered into a long-term lease agreement for a period of 89 years for the sum of $1 per year. In addition, the Medical Center has the option of purchasing the property at any time for the sum of $1. The Medical Center recognized the fair value of the lease at the time the agreement with the Authority was entered into. The Medical Center is amortizing the lease value over the life of the lease. The lease value of Plum Ridge Care Center at September 30, 2022 and 2021 was approximately $1,011,000 and $1,067,000, respectively, and is included in other assets in the consolidated balance sheet.

In 2001, the Medical Center subleased the Plum Ridge Care Center to Plum Ridge Care Community, LLC, an unrelated third party, on equivalent lease terms as to the Medical Center’s lease with the Authority, except the Medical Center did not grant the right to purchase the property to Plum Ridge Care Community, LLC. The Medical Center recognized a liability to Plum Ridge Care Community, LLC, for the lease value of the remaining term of the lease. The revenue is being amortized over the lease term. The deferred rental revenue of Plum Ridge Care Center was approximately $2,240,000 and $2,274,000 at September 30, 2022 and 2021, respectively, and is included in other long-term liabilities in the consolidated balance sheet.

Note 8 – Deferred Revenue (continued)

OHSU Building Lease
In 2021, the Medical Center signed an agreement with Oregon Health and Science University (OHSU) for $5,000,000 to expand the Medical Center's campus by constructing a 4-story office building on the Sky Lakes Main Campus in Klamath Falls, Oregon. As a part of this agreement with OHSU, OHSU received an exclusive license and right to use and occupy a portion of the building for the life of the lease, 50 years. The Medical Center recognized a liability to OHSU for the lease value of the remaining term of the lease. The revenue is being amortized over the lease term. The deferred rental revenue of OHSU was approximately $3,796,000 and $3,876,000 at September 30, 2022 and 2021, and is included in other long-term liabilities in the consolidated balance sheet.

Note 9 – Capital Leases

Capital leases as of September 30 are as follows:

	2022	2021
Facility lease with a private party with monthly payments of $36,274 at 8.90% through September 2037.	$ 3,597,000	$ 3,706,000
Equipment lease-purchase agreement with Pyxis Financial Services with monthly payments of $24,920 at 3.65% through November 2031.	2,293,000	-
Equipment lease-purchase agreement with Huntington Financial Services with monthly payments of $7,175 at 1.62% through August 2024.	182,000	257,000
Total capital lease obligations	6,072,000	3,963,000
Less current portion	(422,000)	(192,000)
Capital lease obligations, net of current portion	$ 5,650,000	$ 3,771,000

Note 9 – Capital Leases (continued)

Scheduled payments on capital lease obligations for the years ending September 30 are as follows:

2023	$ 820,000
2024	820,000
2025	756,000
2026	734,000
2027	734,000
Thereafter	5,512,000
Total minimum lease payments	9,376,000
Less amount representing interest	(3,304,000)
Present value of net minimum lease payments	$ 6,072,000

Note 10 – Long-Term Debt

Long term debt consisted of the following as of September 30:

	2022	2021
Series 2016 Bonds with interest rates from 2% to 5% and mature in varying amounts through 2046, net of premiums of $4,618,620 and $4,811,063 at September 30, 2022 and 2021, respectively.	$ 51,274,000	$ 52,511,000
Series 2012 Bonds with interest rates from 3.5% to 5% and mature in varying amounts through 2031, net of premiums of $668,469 and $742,744 at September 30, 2022 and 2021, respectively.	7,249,000	8,778,000
Bank of America Loan with a fixed interest rate of 3.9%, due and payable July 2025.	3,284,000	4,359,000
Bank of America Loan with a fixed interest rate of 2.7%, due and payable September 2026.	2,971,000	3,666,000
Bank of America Loan with a fixed interest rate of 3.7%, due and payable May 2029.	1,339,000	-
Total long-term debt	66,117,000	69,314,000
Less deferred financing costs	(899,000)	(953,000)
Less current portion	(4,442,000)	(4,269,000)
Long-term debt, net of deferred financing costs and current portion	$ 60,776,000	$ 64,092,000

Note 10 – Long-Term Debt (continued)

2016 Bonds – In 2016, the Authority issued $53,325,000 in Series 2016 Bonds to defease the remaining 2006 Bonds, to pay or to reimburse the Medical Center for capital expenditures, to fund a Reserve Fund for the 2016 Bonds, and to pay costs of issuing the 2016 Bonds. The issuance was structured as a legal defeasance. Adequate amounts of the 2016 Bond issuance were used to purchase U.S. Treasury Securities to fully pay the debt service requirements of the 2006 Bonds. The securities have been placed in an escrow account and the Escrow Agent for the account will pay the debt service requirements as they become due. As the debt for the 2006 Series has been legally defeased, the Medical Center is no longer required to report the liability in the consolidated balance sheet.

The 2016 Bonds are secured by a Deed of Trust on a portion of the Medical Center campus, including the main hospital facility.

2012 Bonds – In 2013, the Authority issued $17,000,000 in Series 2012 Bonds to defease the remaining 2002 Bonds, to pay or to reimburse the Medical Center for the payment of new equipment, to fund a Reserve Fund for the 2012 Bonds, and to pay costs of issuing the 2012 Bonds. The issuance was structured as a legal defeasance. Adequate amounts of the 2012 Bond issuance were used to purchase U.S. Treasury Securities to fully pay the debt service requirements of the 2002 Bonds. The securities have been placed in an escrow account and the Escrow Agent for the account will pay the debt service requirements as they become due. As the debt for the 2002 Series has been legally defeased, the Medical Center is no longer required to report the liability in the consolidated balance sheet.

The 2012 Bonds are secured by a Deed of Trust on a portion of the Medical Center campus, including the main hospital facility. They are further secured by a Reserve Fund, created by the terms of the Bond Indenture to be held by the Bond Trustee (Note 4) to prevent a payment default on the Bonds. The Reserve Fund is required to maintain a balance equal to the lesser of the maximum annual debt service, 125% of the average annual debt service, or 10% of the bond proceeds. They are also secured by a pledge of the gross revenues.

2018 Loans – In 2018, the Medical Center entered into an Equipment Security Note with the Bank of America for $7,500,000 for various medical equipment and tenant improvements.

2019 Loans – In 2019, the Medical Center entered into an Equipment Security Note with the Bank of America for $5,000,000 for various medical equipment and tenant improvements.

2022 Loans – In 2022, the Medical Center entered into an Equipment Security Note with the Bank of America for $3,371,000 for various medical equipment and tenant improvements. As of September 30, 2022, the Medical Center had only drawn down 1,339,000 of the note.

The Medical Center must satisfy certain covenants as long as the bonds are outstanding. At September 30, 2022, management is not aware of any violation of the covenants.

Note 10 – Long-Term Debt (continued)

After the close of the 2022 fiscal year, the Medical Center issued $11,000,000 in Series 2022 bonds to defease the remaining 2012 Series bonds, to pay for capital expenditures, to fund a Reserve Fund for the 2022 bonds, and to pay the costs of issuing the 2022 bonds. The interest rate is 3.51% with payments being made bi-annually. The new maturity date for these bonds is now September 30, 2031.

With the 2012 Series being legally defeased, the Medical Center will no longer be reporting any liabilities for that bond issue following the recognition of the new Series 2022 bonds in the financial statements of Sky Lakes Medical Center. There is no significant change in terms or conditions with the issuance of the new bonds compared to those defined by earlier bond issues. The 2022 bonds are secured by a Deed of Trust on a portion of the Medical Center campus, including the main hospital facility.

Scheduled future principal payments and amortization of premiums for all long-term debt for the years ending September 30 are as follows:

2023	$ 4,797,000
2024	5,454,000
2025	5,305,000
2026	3,975,000
2027	3,322,000
Thereafter	47,684,000
	$ 70,537,000

Deferred financing costs incurred and bond premium received in connection with the issuance of the refunding gross revenue bonds are being amortized over the term of the bond issue by the straight-line method, which approximates the effective interest rate method.

Note 11 – Advance and Refund Liabilities

Provider Relief Funds (PRF) – On March 27, 2020, the United States Congress passed the Coronavirus Aid, Relief, and Economic Securities (CARES) Act. The CARES Act included provisions for health care under the Provider Relief Fund. During April and May 2020 and January 2021, the Medical Center received funds under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services (HHS) of $41,641,000. The Medical Center was required to and did timely sign attestations agreeing to the terms and conditions of payment. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are to be used for healthcare-related expenses or lost revenue attributable to COVID-19, limitations of out of pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. It is noted that anti-fraud monitoring and auditing will be performed by HHS and the Office of the Inspector General. The Medical Center's management is currently determining its ability to comply with these terms and conditions. On the statement of operations, for the years ended September 30, 2022 and 2021, the Medical Center recognized Provider Relief Funds of $10,593,000 and $600,000, respectively, as other revenue. As of September 30, 2021, the Medical Center recorded a liability on the balance sheet of $10,254,000 for funds to be returned. These funds were returned in full in November 2021.

Note 11 – Advance and Refund Liabilities (continued)

Medicare advance payments – The passage of the CARES Act amended the existing CMS Accelerated Payments Program to provide additional benefits and flexibilities, including extended repayment timeframes, to the subset of providers specifically referenced in the CARES Act, including inpatient hospitals, children's hospitals, certain cancer hospitals, and critical access hospitals. During April 2020, the Medical Center received funds under the Accelerated Payments Program, administered by Noridian Medicare of $32,442,000. As of September 30, 2021, the Medical Center recorded a liability on the balance sheet of $25,729,000 for funds to be returned. These funds were returned in full in August 2022.

Note 12 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30:

	2022	2021
Cancer fund	$ 3,283,000	$ 3,950,000
Cares fund	1,276,000	1,512,000
Other funds	3,351,000	2,821,000
Total net assets with donor restrictions	$ 7,910,000	$ 8,283,000

Note 13 – Commitments and Contingencies

Operating leases

Lessee leases – The Medical Center leases equipment and facilities under operating leases which expire through July 2027. Total rental expense for all operating leases in the fiscal years ending September 30, 2022 and 2021 was approximately $1,070,000 and $1,035,000, respectively.

Minimum future payments on non-cancelable leases as of September 30 are:

2023	$ 317,000
2024	288,000
2025	271,000
2026	284,000
2027	297,000
	$ 1,457,000

Note 13 – Commitments and Contingencies (continued)

Lessor leases – The Medical Center is the lessor of the office space to various entities under operating leases expiring in various years through September 2057.

Following is a summary of property on or held for lease at September 30:

	2022	2021
Buildings and improvements	$ 17,215,000	$ 19,147,000
Less accumulated depreciation	(7,630,000)	(7,443,000)
	$ 9,585,000	$ 11,704,000

Minimum future rentals to be received on non-cancelable leases as of September 30 are:

2023	$ 188,000
2024	115,000
2025	76,000
2026	36,000
2027	6,000

Litigation
The Medical Center is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Medical Center's future financial position or results from operations.

Note 14 – Risks and Uncertainties

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management is closely monitoring the evolution of this pandemic, including how it may affect the economy and general population. The pandemic did impact the Medical Center's revenue in the initial months as a result of a restriction of elective services by the State of Oregon. The Medical Center was able to restore and provide most services by year-end. Management has not yet determined the full financial impact of these events.

The Medical Center's management has been closely monitoring the impact of COVID-19 on the Medical Center's operations, including the impact on its patients and employees. The duration and intensity of the pandemic is uncertain but may influence patient decisions, donor decisions, and may also negatively impact collections of the Medical Center's receivables.

As a result of the pandemic, the Medical Center received federal funds as described in Note 11.

Note 15 – Related-Party Transactions

The following is a summary of transactions between the Medical Center and related parties:

Atrio Health Plans – The Medical Center received $24,133,000 and $21,714,000 in Medicare reimbursement from Atrio Health Plans, Inc. in fiscal year 2022 and 2021, respectively.

Southern Oregon Linen Services – The Medical Center purchased laundry services of approximately $506,000 and $565,000 from Southern Oregon Linen Services in fiscal years 2022 and 2021, respectively.

Cascade Comprehensive Care, Inc. – The Medical Center received approximately $44,403,000 and $35,122,000 in Medicaid reimbursements from CCC in fiscal years 2022 and 2021, respectively.

Note 16 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of September 30:

	2022	2021
Cash and cash equivalents	$ 18,447,000	$ 52,777,000
Patient accounts receivable, net	35,727,000	36,790,000
Other receivables	5,997,000	6,142,000
Risk pool withhold receivable	8,977,000	9,789,000
Total	$ 69,148,000	$ 105,498,000

The Medical Center has established an operating reserve and reviews its funding level on an ongoing basis to ensure it is adequate. The Medical Center invests cash in excess of daily requirements in U.S. government securities and other short-term investments, certificates of deposit, and money market funds.

Due to the uncertainty of the pandemic and the need to refund the advanced payment of Provider Relief Funds, the Medical Center increased the amount of cash on hand as a precaution in 2021.

Note 17 – Functional Expenses

The Medical Center provides general health care services to residents within its geographic location. Expenses related to providing these services for the Medical Center for the year ended September 30, 2022 are as follows:

	Program Activities	Supporting Activities	
	Healthcare Services	Management and General	Total Expenses
Salaries and benefits	$ 122,390,000	$ 17,397,000	$ 139,787,000
Purchased services	50,249,000	2,570,000	52,819,000
Supplies	20,309,000	-	20,309,000
Drugs	26,248,000	-	26,248,000
Depreciation and amortization	5,080,000	6,933,000	12,013,000
Building and maintenance	4,127,000	12,687,000	16,814,000
Provider tax	15,126,000	-	15,126,000
Physician fees	10,241,000	12,000	10,253,000
Interest expense	11,000	2,747,000	2,758,000
Minor equipment	758,000	236,000	994,000
Professional fees	89,000	850,000	939,000
Rentals	854,000	216,000	1,070,000
Insurance	790,000	998,000	1,788,000
Other	3,014,000	1,014,000	4,028,000
Total	$ 259,286,000	$ 45,660,000	$ 304,946,000

Expenses related to providing these services for the Medical Center for the year ended September 30, 2021 are as follows:

	Program Activities	Supporting Activities	
	Healthcare Services	Management and General	Total Expenses
Salaries and benefits	$ 116,223,000	$ 20,061,000	$ 136,284,000
Purchased services	30,286,000	2,316,000	32,602,000
Supplies	18,212,000	-	18,212,000
Drugs	22,441,000	-	22,441,000
Depreciation and amortization	5,191,000	7,437,000	12,628,000
Building and maintenance	3,641,000	11,429,000	15,070,000
Provider tax	13,664,000	-	13,664,000
Physician fees	9,643,000	20,000	9,663,000
Interest expense	9,000	2,790,000	2,799,000
Minor equipment	820,000	133,000	953,000
Professional fees	58,000	968,000	1,026,000
Rentals	804,000	231,000	1,035,000
Insurance	724,000	1,652,000	2,376,000
Other	1,760,000	1,205,000	2,965,000
Total	$ 223,476,000	$ 48,242,000	$ 271,718,000

Note 17 – Functional Expenses (continued)

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Medical Center allocates expenses on the basis of estimates of time and effort.

Note 18 – Retirement Plans

401(k) – Retirement Plan

WPS established the West Physician Services 401(k) Retirement Plan, which is a qualified retirement plan under Section 401(k) of the Internal Revenue Code. Effective January 1, 2019, the Plan was modified to include the Medical Center employees. The Medical Center matched one-third of a percent per 1% of the employee's contribution up to a maximum Medical Center contribution of 1%, except for WPS and supplemental employees. Effective October 1, 2019, the Medical Center began making bi-weekly required contributions of 5% of an employee's eligible compensation to the plan each plan year. The Medical Center made non-discretionary matching employer contributions of $5,308,000 and $5,780,000 for the years ended September 30, 2022 and 2021, respectively.

409(a) – Retirement Plan

WPS established the West Physician Services Nonqualified Retirement Plan, for the purposes of providing nonqualified retirement benefits to a select group of its employees. The Medical Center is required to contribute 5% of an employee's compensation to the plan each plan year. In addition, the plan permits eligible employees to defer a portion of their compensation. The participant balances are distributable in cash after retirement or termination of employment. The Medical Center contributed $190,000 and $196,000 to the plan on behalf of employees for fiscal years ended September 30, 2022 and 2021, respectively.

457(b) – Deferred Compensation Plan

The Medical Center established the Sky Lakes Medical Center 457(b) Plan. The Plan is a 457(b) qualified deferred compensation plan that permits eligible employees to defer a portion of their compensation. The participant balances are distributable in cash after retirement, unforeseeable emergencies, or termination of employment. Employer contributions to the plan approximated $70,000 and $64,000 for the years ended September 30, 2022 and 2021, respectively. The Medical Center may hold the participant balances in cash or invest it in assets selected by the Plan Administrator. The Plan Administrator has elected to invest the participant balances in mutual funds.

Supplementary Information

Sky Lakes Medical Center and Affiliates
Consolidating Balance Sheet
September 30, 2022

ASSETS

	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Klamath Medical Business Center	KW Campus	Total	Eliminating Entries	Consolidated
CURRENT ASSETS							
Cash and cash equivalents	$ 17,326,000	$ 341,000	$ 771,000	$ 9,000	$ 18,447,000	$ -	$ 18,447,000
Patient accounts receivable, net	35,727,000	-	-	-	35,727,000	-	35,727,000
Other receivables	9,357,000	-	-	-	9,357,000	(3,360,000)	5,997,000
Risk pool withhold receivable	8,977,000	-	-	-	8,977,000	-	8,977,000
Supplies inventories	7,416,000	-	-	-	7,416,000	-	7,416,000
Prepaid expenses	5,593,000	-	-	-	5,593,000	-	5,593,000
Promises to give, current portion	-	750,000	-	-	750,000	-	750,000
Total current assets	84,396,000	1,091,000	771,000	9,000	86,267,000	(3,360,000)	82,907,000
ASSETS LIMITED AS TO USE	1,440,000	-	-	-	1,440,000	-	1,440,000
PROPERTY AND EQUIPMENT, net	134,503,000	-	678,000	1,595,000	136,776,000	-	136,776,000
INVESTMENTS	183,462,000	20,373,000	-	-	203,835,000	(1,715,000)	202,120,000
OTHER ASSETS	1,021,000	-	-	-	1,021,000	(10,000)	1,011,000
Total assets	$ 404,822,000	$ 21,464,000	$ 1,449,000	$ 1,604,000	$ 429,339,000	$ (5,085,000)	$ 424,254,000

Sky Lakes Medical Center and Affiliates
Consolidating Balance Sheet
September 30, 2022

LIABILITIES AND NET ASSETS

	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Klamath Medical Business Center	KW Campus	Total	Eliminating Entries	Consolidated
CURRENT LIABILITIES							
Accounts payable	$ 9,118,000	$ 483,000	$ -	$ -	$ 9,601,000	$ -	$ 9,601,000
Accrued payroll	8,725,000	-	-	-	8,725,000	-	8,725,000
Accrued compensated absences	6,518,000	-	-	-	6,518,000	-	6,518,000
Accrued interest payable	241,000	-	-	-	241,000	-	241,000
Other accrued expenses	19,980,000	-	-	-	19,980,000	(3,370,000)	16,610,000
Estimated third-party payor settlements	1,838,000	-	-	-	1,838,000	-	1,838,000
Advance and refund liabilities	-	-	-	-	-	-	-
Capital lease obligations, current portion	422,000	-	-	-	422,000	-	422,000
Long-term debt, current portion	4,442,000	-	-	-	4,442,000	-	4,442,000
Total current liabilities	51,284,000	483,000	-	-	51,767,000	(3,370,000)	48,397,000
LONG-TERM LIABILITIES							
Capital lease obligations, net of current portion	5,650,000	-	-	-	5,650,000	-	5,650,000
Long-term debt, net of current portion and deferred financing costs	60,776,000	-	-	-	60,776,000	-	60,776,000
Other long-term liabilities	6,832,000	-	-	-	6,832,000	-	6,832,000
Total long-term liabilities	73,258,000	-	-	-	73,258,000	-	73,258,000
Total liabilities	124,542,000	483,000	-	-	125,025,000	(3,370,000)	121,655,000
NET ASSETS							
Without donor restrictions – Sky Lakes Medical Center	280,280,000	13,071,000	1,449,000	1,604,000	296,404,000	(3,242,000)	293,162,000
Without donor restrictions – non-controlling interest	-	-	-	-	-	1,527,000	1,527,000
With donor restrictions	-	7,910,000	-	-	7,910,000	-	7,910,000
Total net assets	280,280,000	20,981,000	1,449,000	1,604,000	304,314,000	(1,715,000)	302,599,000
Total liabilities and net assets	$ 404,822,000	$ 21,464,000	$ 1,449,000	$ 1,604,000	$ 429,339,000	$ (5,085,000)	$ 424,254,000

Sky Lakes Medical Center and Affiliates
Consolidating Statement of Operations
For the Year Ended September 30, 2022

	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Klamath Medical Business Center	KW Campus	Total	Eliminating Entries	Consolidated
REVENUES							
Patient service revenue, net contractual adjustments	$ 296,125,000	$ -	$ -	$ -	$ 296,125,000	$ -	$ 296,125,000
Provision for bad debts	(8,640,000)	-	-	-	(8,640,000)	-	(8,640,000)
Net patient service revenue	287,485,000	-	-	-	287,485,000	-	287,485,000
Other revenue	21,551,000	-	289,000	-	21,840,000	(998,000)	20,842,000
Total revenues	309,036,000	-	289,000	-	309,325,000	(998,000)	308,327,000
EXPENSES							
Salaries and benefits	139,581,000	206,000	-	-	139,787,000	-	139,787,000
Purchased services	52,834,000	-	2,000	-	52,836,000	(17,000)	52,819,000
Supplies	20,936,000	-	-	-	20,936,000	(627,000)	20,309,000
Drugs	26,248,000	-	-	-	26,248,000	-	26,248,000
Depreciation and amortization	11,965,000	-	48,000	-	12,013,000	-	12,013,000
Building and maintenance	16,712,000	-	115,000	-	16,827,000	(13,000)	16,814,000
Provider tax	15,126,000	-	-	-	15,126,000	-	15,126,000
Physician fees	10,262,000	-	-	-	10,262,000	(9,000)	10,253,000
Interest expense	2,758,000	-	-	-	2,758,000	-	2,758,000
Professional fees	937,000	-	9,000	1,000	947,000	(8,000)	939,000
Rentals and lease expense	1,070,000	-	-	-	1,070,000	-	1,070,000
Insurance	1,779,000	-	9,000	-	1,788,000	-	1,788,000
Minor equipment	994,000	-	-	-	994,000	-	994,000
Other	4,021,000	-	21,000	-	4,042,000	(14,000)	4,028,000
Total expenses	305,223,000	206,000	204,000	1,000	305,634,000	(688,000)	304,946,000
OPERATING INCOME (LOSS)	3,813,000	(206,000)	85,000	(1,000)	3,691,000	(310,000)	3,381,000
OTHER INCOME (EXPENSE)							
Investment income	3,642,000	412,000	-	-	4,054,000	-	4,054,000
Contributions	742,000	6,000	-	-	748,000	(119,000)	629,000
Net assets released from restriction	-	853,000	-	-	853,000	-	853,000
Other non-operating income (expense)	301,000	(2,338,000)	-	-	(2,037,000)	400,000	(1,637,000)
Total other income, net	4,685,000	(1,067,000)	-	-	3,618,000	281,000	3,899,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	$ 8,498,000	$ (1,273,000)	$ 85,000	$ (1,000)	$ 7,309,000	$ (29,000)	$ 7,280,000

Sky Lakes Medical Center and Affiliates
Consolidating Statement of Changes in Net Assets
For the Year Ended September 30, 2022

	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Klamath Medical Business Center	KW Campus	Total	Eliminating Entries	Consolidated
NET ASSETS WITHOUT DONOR RESTRICTIONS							
Excess (deficiency) of revenues over expenses	$ 8,498,000	$ (1,273,000)	$ 85,000	$ (1,000)	$ 7,309,000	$ (29,000)	$ 7,280,000
Contributions	-	-	11,000	-	11,000	-	11,000
Net change in unrealized gains and losses on other-than-trading securities	-	(3,032,000)	-	-	(3,032,000)	-	(3,032,000)
Increase (decrease) in net assets without donor restrictions	8,498,000	(4,305,000)	96,000	(1,000)	4,288,000	(29,000)	4,259,000
NET ASSETS WITH DONOR RESTRICTIONS							
Contributions	-	1,835,000	-	-	1,835,000	-	1,835,000
Net change in unrealized gains and losses on other-than-trading securities	-	(1,547,000)	-	-	(1,547,000)	-	(1,547,000)
Investment income	-	192,000	-	-	192,000	-	192,000
Net assets released from restrictions	-	(853,000)	-	-	(853,000)	-	(853,000)
Decrease in net assets with donor restrictions	-	(373,000)	-	-	(373,000)	-	(373,000)
CHANGE IN NET ASSETS	8,498,000	(4,678,000)	96,000	(1,000)	3,915,000	(29,000)	3,886,000
NET ASSETS, beginning of year	271,782,000	25,659,000	1,353,000	1,605,000	300,399,000	(1,686,000)	298,713,000
NET ASSETS, end of year	$ 280,280,000	$ 20,981,000	$ 1,449,000	$ 1,604,000	$ 304,314,000	$ (1,715,000)	$ 302,599,000

Sky Lakes Medical Center and Affiliates – Obligated Group
Combining Balance Sheet
September 30, 2022

ASSETS

	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Total	Eliminating Entries	Total Obligated Group
CURRENT ASSETS					
Cash and cash equivalents	$ 17,326,000	$ 341,000	$ 17,667,000	$ -	$ 17,667,000
Patient accounts receivable, net	35,727,000	-	35,727,000	-	35,727,000
Other receivables	9,357,000	-	9,357,000	(3,360,000)	5,997,000
Risk pool withhold receivable	8,977,000	-	8,977,000	-	8,977,000
Supplies inventories	7,416,000	-	7,416,000	-	7,416,000
Prepaid expenses	5,593,000	-	5,593,000	-	5,593,000
Promises to give, current portion	-	750,000	750,000	-	750,000
Total current assets	84,396,000	1,091,000	85,487,000	(3,360,000)	82,127,000
ASSETS LIMITED AS TO USE	1,440,000	-	1,440,000	-	1,440,000
PROPERTY AND EQUIPMENT, net	134,503,000	-	134,503,000	-	134,503,000
INVESTMENTS	183,462,000	20,373,000	203,835,000	(1,715,000)	202,120,000
OTHER ASSETS	1,021,000	-	1,021,000	(10,000)	1,011,000
Total assets	$ 404,822,000	$ 21,464,000	$ 426,286,000	$ (5,085,000)	$ 421,201,000

Sky Lakes Medical Center and Affiliates – Obligated Group
Combining Balance Sheet
September 30, 2022

LIABILITIES AND NET ASSETS

	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Total	Eliminating Entries	Total Obligated Group
CURRENT LIABILITIES					
Accounts payable	$ 9,118,000	$ 483,000	$ 9,601,000	$ -	$ 9,601,000
Accrued payroll	8,725,000	-	8,725,000	-	8,725,000
Accrued compensated absences	6,518,000	-	6,518,000	-	6,518,000
Accrued interest payable	241,000	-	241,000	-	241,000
Other accrued expenses	19,980,000	-	19,980,000	(3,370,000)	16,610,000
Estimated third-party payor settlements	1,838,000	-	1,838,000	-	1,838,000
Advance and refund liabilities	-		-	-	-
Capital lease obligations, current portion	422,000	-	422,000	-	422,000
Long-term debt, current portion	4,442,000	-	4,442,000	-	4,442,000
Total current liabilities	51,284,000	483,000	51,767,000	(3,370,000)	48,397,000
LONG-TERM LIABILITIES					
Capital lease obligations, net of current portion	5,650,000	-	5,650,000	-	5,650,000
Long-term debt, net of current portion and deferred financing costs	60,776,000	-	60,776,000	-	60,776,000
Other long-term liabilities	6,832,000	-	6,832,000	-	6,832,000
Total long-term liabilities	73,258,000	-	73,258,000	-	73,258,000
Total liabilities	124,542,000	483,000	125,025,000	(3,370,000)	121,655,000
NET ASSETS					
Without donor restrictions – Sky Lakes Medical Center	280,280,000	13,071,000	293,351,000	(1,715,000)	291,636,000
With donor restrictions	-	7,910,000	7,910,000	-	7,910,000
Total net assets	280,280,000	20,981,000	301,261,000	(1,715,000)	299,546,000
Total liabilities and net assets	$ 404,822,000	$ 21,464,000	$ 426,286,000	$ (5,085,000)	$ 421,201,000

Sky Lakes Medical Center and Affiliates – Obligated Group
Combining Statement of Operations
For the Year Ended September 30, 2022

	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Total	Eliminating Entries	Total Obligated Group
REVENUES					
Patient service revenue, net contractual adjustments	$ 296,125,000	$ -	$ 296,125,000	$ -	$ 296,125,000
Provision for bad debts	(8,640,000)	-	(8,640,000)	-	(8,640,000)
Net patient service revenue	287,485,000	-	287,485,000	-	287,485,000
Other revenue	21,551,000	-	21,551,000	(998,000)	20,553,000
Total revenues	309,036,000	-	309,036,000	(998,000)	308,038,000
EXPENSES					
Salaries and benefits	139,581,000	206,000	139,787,000	-	139,787,000
Purchased services	52,834,000	-	52,834,000	(17,000)	52,817,000
Supplies	20,936,000	-	20,936,000	(627,000)	20,309,000
Drugs	26,248,000	-	26,248,000	-	26,248,000
Depreciation and amortization	11,965,000	-	11,965,000	-	11,965,000
Building and maintenance	15,126,000	-	15,126,000	(13,000)	15,113,000
Provider tax	16,712,000	-	16,712,000	-	16,712,000
Physician fees	10,262,000	-	10,262,000	(9,000)	10,253,000
Interest expense	2,758,000	-	2,758,000	-	2,758,000
Professional fees	1,779,000	-	1,779,000	(8,000)	1,771,000
Rentals and lease expense	1,070,000	-	1,070,000	-	1,070,000
Insurance	937,000	-	937,000	-	937,000
Minor equipment	994,000	-	994,000	-	994,000
Other	4,021,000	-	4,021,000	(14,000)	4,007,000
Total expenses	305,223,000	206,000	305,429,000	(688,000)	304,741,000
OPERATING INCOME (LOSS)	3,813,000	(206,000)	3,607,000	(310,000)	3,297,000
OTHER INCOME (EXPENSE)					
Investment income	3,642,000	412,000	4,054,000	-	4,054,000
Contributions	742,000	6,000	748,000	(119,000)	629,000
Net assets released from restriction	-	853,000	853,000	-	853,000
Other non-operating income (expense)	301,000	(2,338,000)	(2,037,000)	400,000	(1,637,000)
Total other income, net	4,685,000	(1,067,000)	3,618,000	281,000	3,899,000
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	$ 8,498,000	$ (1,273,000)	$ 7,225,000	$ (29,000)	$ 7,196,000

Sky Lakes Medical Center and Affiliates – Obligated Group
Combining Statement of Changes in Net Assets
For the Year Ended September 30, 2022

	Sky Lakes Medical Center	Sky Lakes Medical Center Foundation	Total	Eliminating Entries	Total Obligated Group
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Excess (deficiency) of revenues over expenses	$ 8,498,000	$ (1,273,000)	$ 7,225,000	$ (29,000)	$ 7,196,000
Net change in unrealized gains and losses on other-than-trading securities	-	(3,032,000)	(3,032,000)	-	(3,032,000)
Increase (decrease) in net assets without donor restrictions	8,498,000	(4,305,000)	4,193,000	(29,000)	4,164,000
NET ASSETS WITH DONOR RESTRICTIONS					
Contributions	-	1,835,000	1,835,000	-	1,835,000
Net change in unrealized gains and losses on other-than-trading securities	-	(1,547,000)	(1,547,000)	-	(1,547,000)
Investment income	-	192,000	192,000	-	192,000
Net assets released from restrictions	-	(853,000)	(853,000)	-	(853,000)
Decrease in net assets with donor restrictions	-	(373,000)	(373,000)	-	(373,000)
CHANGE IN NET ASSETS	8,498,000	(4,678,000)	3,820,000	(29,000)	3,791,000
NET ASSETS, beginning of year	271,782,000	25,659,000	297,441,000	(1,686,000)	295,755,000
NET ASSETS, end of year	$ 280,280,000	$ 20,981,000	$ 301,261,000	$ (1,715,000)	$ 299,546,000