



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

**PUBLIC HOSPITAL DISTRICT NO. 1 OF SKAGIT COUNTY,
WASHINGTON**

December 31, 2020 and 2019



MOSSADAMS

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Report of Independent Auditors

To the Board of Commissioners
Public Hospital District No. 1 of Skagit County, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Public Hospital District No. 1 of Skagit County, Washington (the District) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Hospital District No. 1 of Skagit County, Washington, as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis on pages 3 through 23 and the Schedule of Changes in Total Other Post-Employment Benefits and Related Ratios on page 57 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Everett, Washington
April 14, 2021

Public Hospital District No. 1 of Skagit County, Washington Management's Discussion and Analysis

This discussion and analysis provides an overview of the financial position and financial activities of Public Hospital District No. 1 of Skagit County, Washington (the District). The District, doing business as Skagit Valley Hospital (SVH), added the clinic division on July 1, 2010. The clinic division, which is known as Skagit Regional Clinics (SRC), was acquired when Skagit Valley Hospital employed the physicians of the former Skagit Valley Medical Center (SVMC) and started operations. On January 1, 2011, the District created the system name Skagit Regional Health (SRH). This name encompasses both SVH and the SRC operations. On June 1, 2016, the District began leasing the facilities of Public Hospital District No. 3 of Snohomish County and providing hospital and clinic services under the name Cascade Valley Hospital and Clinics (CVH).

Please read this discussion and analysis in conjunction with the accompanying financial statements and accompanying notes, which follow this section.

The statement of net position and the statement of revenues, expenses, and changes in net position report information about the District's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net position and changes in it. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating.

Financial Highlights

- SRH's total operating revenue grew by 0.8%, or \$3.4 million, from \$424.8 million in 2019 to \$428.2 million in 2020. Over the same period, total operating expenses grew by 3.4%, or \$14.4 million, from \$424.5 million in 2019 to \$438.8 million in 2020.
- SRH ended 2020 with an operating loss of \$10.6 million. This represents a \$10.9 million decline from the 2019 operating income of \$0.3 million. In 2020, SRH also had a net nonoperating income of \$26.1 million and a gain on transfer of assets of \$1.3 million, producing an increase in net position of \$16.8 million for 2020.
- In September 2019, the District carried out the advance refunding of a portion of the outstanding Unlimited Tax General Obligation Bonds, 2012 with the issuance of the Unlimited Tax General Obligation Bond, 2019. The advance refunding will save the District's taxpayers a total of \$3,126,813 and a net present value savings of \$2,886,456 at the time of issuance.
- In December 2019, the District carried out the advance refunding of the outstanding Hospital Revenue Bonds, 2010 with the issuance of the Hospital Revenue Refunding Bond, 2019. The advance refunding will save the District \$8,425,503 and a net present value savings of \$6,611,503.
- The District expanded on a partnership with Skagit Radiology to open the Skagit Imaging Pavilion in September 2019 north of Skagit Valley Hospital in Mount Vernon and bring the first 3D mammography units to the community. The center also features the latest in several more diagnostic imaging modalities including Magnetic Resonance Imaging (MRI), ultrasound, Computed Tomography (CT) and stereotactic biopsy. The Skagit Valley Hospital Foundation raised \$2 million to help equip the Women's Imaging Center where the 3D mammography units are located.

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis (continued)

Financial Highlights (continued)

- Danny Vera, PharmD, MBA, became the Chief Operating Officer of the District in November 2018. He previously served as Vice President of Operations with Dignity Health Mercy San Juan Medical Center in Carmichael, California, a 370-bed, Level II trauma facility with 2,500 employees. Mr. Vera holds an MBA from the California State University, Fresno Craig School of Business and a Doctor of Pharmacy from the University of California, San Francisco, School of Pharmacy.
- The District board approved the purchase of the \$2 million da Vinci® Xi™ Surgical System, which began operating in September 2018. The system is used in a variety of minimally invasive surgeries and is shown to improve patient outcomes, reduce recovery time and shorten hospital stays. The da Vinci® Xi™ Surgical System was installed at the Skagit Valley Hospital in Mount Vernon and is the first robotic tool system offered by Skagit Regional Health to combine technology and services to improve outcomes for patients.
- The District is making a strategic investment of approximately \$72 million for the five-year span of 2016–2020 to build a new Electronic Health Record (EHR) and selected Epic as the vendor in 2015. The new EHR is a powerful, state-of-the-art tool that provides system interoperability, connectivity with patients, access to information, and data sharing across the District's entire system, including SVH, SRC, and CVH. The EHR became operable across the system in October 2017.
- The District passed a resolution in November 2018 authorizing the sale of the outpatient kidney dialysis operations to Fresenius Medical Care Ventures, LLC. Fresenius offers outpatient dialysis services out of the space previously occupied by the Skagit Valley Kidney Center near Skagit Valley Hospital in Mount Vernon, WA. Fresenius leases the space from the District and has purchased some assets as part of the transaction. Fresenius has employed the majority of Skagit Regional Health's dialysis employees. Moving to a specialty vendor, such as Fresenius, to provide dialysis services is a trend in industry care models for dialysis across the United States. The District looks forward to collaborating with Fresenius, which has outstanding quality scores and is an industry leader offering wrap-around patient services. The sale closed December 17, 2018, with the District recognizing a gain on sale of operations of \$9.2 million, net of associated costs. The District will continue to offer inpatient dialysis services at Skagit Valley Hospital.

Public Hospital District No. 1 of Skagit County, Washington Management's Discussion and Analysis

Financial Highlights (continued)

- The District approved a letter of intent, dated April 6, 2015, with the University of Washington, acting through UW Medicine, and Public Hospital District No. 3 of Snohomish County (PHD No. 3), d/b/a Cascade Valley Hospital and Clinics in Arlington, Washington. The three parties (the Parties) approved the affiliation agreement (the Agreement) on May 29, 2015. The Agreement establishes the general principles and conditions that will guide the clinical integration between UW Medicine, SVH, and CVH. This Agreement is not a merger, acquisition, corporate restructure, or lease and does not constitute a change in governance or change in mission for any organization. This Agreement defines a process for joint efforts to seek clinical integration to increase efficiency in the delivery of patient care, monitor and utilize health care services to provide quality patient outcomes, and make care more affordable to the extent consistent with applicable law. The Parties are committed to working with each other to seek to increase their level of clinical integration, including but not limited to; standardized clinical protocols, patient safety programs, connectivity of electronic health information, cost and quality benchmarks, collection of quality and cost data, and a commitment to providing continuity of care for patients by remaining within the clinically integrated programs for their entire episode of care.
- Pursuant to this Agreement, UW Medicine will serve as SVH's and CVH's complex tertiary and quaternary health system for specialty care services not available in mutually designated communities and provided by UW Medicine. UW Medicine will be available as a resource for these services and is committed to providing rapid and efficient access to advanced medical care that could not otherwise be provided locally.
- The District and PHD No. 3 also entered into an Affiliation Agreement regarding the lease and operation of Cascade Valley Hospital and Clinics, dated December 4, 2015 (the Affiliation Agreement). Under the terms of the Affiliation Agreement and effective as of the closing date, June 1, 2016, the District began leasing and operating all of PHD No. 3's health care facilities, including its hospital and clinic facilities. Please see the "Affiliation Agreement with Snohomish County PHD No. 3" at the end of this Management Discussion and Analysis for further information on the Affiliation Agreement.

Public Hospital District No. 1 of Skagit County, Washington Management's Discussion and Analysis (continued)

Financial Highlights (continued)

COVID-19

On February 29, 2020, the Governor of the State of Washington, Jay Inslee, declared a state of emergency after the first known death attributed to COVID-19 in the State of Washington occurred in the Seattle metropolitan area. Shortly thereafter, the World Health Organization declared the COVID-19 outbreak a global pandemic. On March 13, 2020, President Trump declared a national state of emergency with respect to the COVID-19 pandemic, ordering all states to establish emergency operations and authorizing the use of federal funds. On March 18, 2020, pursuant to direction from the State of Washington, SRH began canceling or postponing non-urgent and elective procedures.

On March 23, 2020, Gov. Inslee issued a "Stay Home, Stay Healthy" proclamation, which included an order to halt certain elective procedures including surgeries, outpatient procedures and dental services to preserve the availability of critical equipment for health care workers caring for COVID-19 positive patients. Gov. Inslee issued a proclamation on May 18, 2020, defining the state's plan for the resumption of non-urgent medical and dental procedures. The plan requires an assessment of the organization's readiness as well as the current COVID-19 activity in the community to determine the appropriateness of reopening. As part of the assessment, the proclamation requires specific criteria related to screening, personal protective equipment (PPE), social distancing and hygiene, surge capacity, telemedicine, and others, to be met in order to resume non-urgent procedures. SRH met the requirements defined in the proclamation and resumed non-urgent procedures the week of May 18, 2020.

In response to a surge of COVID-19 related hospitalizations in November 2020, SRH postponed elective surgical procedures that required an inpatient stay through the end of the year.

Major federal and state stimulus and liquidity support came in in several forms described below:

- **Medicare Accelerated and Advance Payment Program:** In April 2020, SRH applied for expedited Medicare payments through the Centers for Medicare and Medicaid Services (CMS) Medicare Accelerated and Advance Payment Program. SRH received approximately \$8 million in funds through the program in June and a second advance of approximately \$35 million in September. At the time of receipt, repayment of the funds was set to begin 120 days after the funds were received. SRH repaid the \$8 million advance in September 2020. In October, the Continuing Appropriations Act, 2021 and Other Extensions Act amended the repayment terms to begin one year after funds were received. At December 31, 2020, SRH had a current liability of \$35,247,911 related to these funds.

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis

Financial Highlights (continued)

COVID-19 (continued)

- **CARES Act Provider Relief Funds (CARES-PRF):** The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided more than \$170 billion to be distributed to health care providers to address, in part, the loss of revenue resulting from reduced elective procedures and the cost incurred in caring for COVID-19 patients. The distribution of these funds began in April 2020 and continued through November in several general and targeted distributions. SRH received approximately \$20 million in funds. SRH has recognized all of these funds in 2020 as nonoperating revenues on the Statements of Revenues, Expenses, and Changes in Net Position.
- **CARES Act FICA Deferral:** The CARES Act also provided for interest free payment deferral of the employer's portion of Social Security taxes that would otherwise be required to be paid during the period beginning March 27, 2020, and ending December 31, 2020. This deferred payment will be due in two installments with 50% to the deferred amount to be deposited by December 31, 2021, and the remaining 50% to be deposited by December 31, 2022. As a result, SRH has a liability of \$7,727,975 related to this deferral.
- **FEMA Public Assistance Program:** SRH applied for a \$2 million expedited funding grant from the Federal Emergency Management Agency (FEMA) Public Assistance Program, covering the timeframe of March 1 to September 22, 2020. Meant to offset incremental expenses incurred as a result of the COVID-19 pandemic, this funding channel allows for an organization to receive 50% of estimated expenses prior to project close, after removing a 25% state cost share requirement. SRH received approximately \$800 thousand through this funding source. This amount was recognized in 2020 as nonoperating revenue on the Statements of Revenues, Expenses, and Changes in Net Position.
- **Other federal, state, and other expense grants:** SRH received additional funding from several sources, including funds made available through the CARES Act and passed through the State of Washington, PPE grants made available through the Washington State Hospital Association, as well as other federal, state, and private grants. These funds totaled approximately \$1 million and were recognized in 2020 on the Statements of Revenues, Expenses, and Changes in Net Position.

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis (continued)

Operating Statistics

Following are key operating statistics for the years ended December 31, 2020, 2019, and 2018:

Statistical Volumes and Definitions ⁽¹⁾

VOLUME	2020	2019	2018
Skagit Valley Hospital			
Admissions (excludes Newborns)			
Medical/Surgical	6,018	6,711	6,736
Obstetrics	872	934	977
Behavioral Health	308	383	369
Total Admissions	7,198	8,028	8,082
Discharges (excludes Newborns)			
Medical/Surgical	5,926	6,653	6,739
Obstetrics	866	922	979
Behavioral Health	335	401	392
Total Discharges	7,127	7,976	8,110
Patient Days (excludes Newborns)			
Medical/Surgical	29,570	29,523	28,977
Obstetrics	1,613	1,671	1,797
Behavioral Health	3,972	3,722	4,156
Total Patient Days	35,155	34,916	34,930
Average Length of Stay (excludes Newborns)			
Medical/Surgical	4.99	4.44	4.30
Obstetrics	1.86	1.81	1.84
Behavioral Health	11.86	9.28	10.60
Total Overall Average Length of Stay	4.93	4.38	4.31
Occupancy (excludes Newborns)	70.1%	69.8%	69.9%
Surgical Cases			
Inpatient Cases	1,394	1,521	1,294
Outpatient Cases	4,333	4,576	4,239
Total Surgical Cases	5,727	6,097	5,533
Endoscopy Cases	5,850	6,652	4,700
Deliveries	810	864	927
Emergency Department Visits ⁽²⁾	29,306	33,900	34,324
Oncology Visits			
Medical Visits	18,392	20,339	17,924
Radiation Therapy Visits	11,130	11,236	11,097
Total Oncology Visits	29,522	31,575	29,021
Diagnostic Imaging Procedures			
CT	20,254	20,931	20,688
MRI	8,275	8,841	9,367
X-Ray	57,639	67,708	69,673
Other Diagnostic Imaging	34,386	37,424	36,295
Total Diagnostic Imaging Procedures	120,554	134,904	136,023
Cath Lab Procedures	3,328	3,507	2,961

⁽¹⁾ Volumes include all patients unless otherwise noted.

⁽²⁾ Includes those patients who are later admitted.

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis

Operating Statistics (continued)

Statistical Volumes and Definitions ⁽¹⁾

VOLUME	2020	2019	2018
Cascade Valley Hospital			
Admissions (excludes Newborns)			
Medical/Surgical	1,187	1,248	1,268
Obstetrics	141	160	155
Total Admissions	1,328	1,408	1,423
Discharges (excludes Newborns)			
Medical/Surgical	1,176	1,241	1,270
Obstetrics	138	156	161
Total Discharges	1,314	1,397	1,431
Patient Days (excludes Newborns)			
Medical/Surgical	4,909	5,402	5,369
Obstetrics	238	276	290
Total Patient Days	5,147	5,678	5,659
Average Length of Stay (excludes Newborns)			
Medical/Surgical	4.17	4.35	4.23
Obstetrics	1.72	1.77	1.80
Total Overall Average Length of Stay	3.92	4.06	3.95
Occupancy (excludes Newborns)	29.3%	32.4%	32.3%
Surgical Cases			
Inpatient Cases	517	525	457
Outpatient Cases	1,079	983	784
Total Surgical Cases	1,596	1,508	1,241
Endoscopy Cases	822	807	818
Deliveries	127	143	135
Emergency Department Visits ⁽²⁾	17,102	19,779	18,834
Diagnostic Imaging Procedures			
CT	6,833	6,961	5,730
MRI	1,243	1,242	1,096
X-Ray	11,347	13,458	12,461
Other Diagnostic Imaging	8,543	8,696	7,240
Total Diagnostic Imaging Procedures	27,966	30,357	26,527
Skagit Regional Health - Clinics			
Provider Clinic Visits			
Primary Care Clinic Visits	171,050	190,824	190,723
Specialty Care Clinic Visits	149,862	147,873	133,491
Total Provider Clinic Visits	320,912	338,697	324,214

⁽¹⁾ Volumes include all patients unless otherwise noted.

⁽²⁾ Includes those patients who are later admitted.

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis (continued)

Performance Overview

The following is a comparison of 2020 actual revenues, expenses, and changes in net position results to 2019 and 2018 results (in thousands):

	2020	2019	2018
Operating revenues			
Net patient service revenue	\$ 397,012	\$ 396,212	\$ 374,835
Other operating revenues	31,189	28,544	23,813
Total operating revenues	428,201	424,756	398,648
Operating expenses			
Salaries and wages	197,389	191,088	176,382
Employee benefits	50,463	45,272	40,001
Professional fees	19,748	19,080	17,185
Supplies	70,851	69,485	58,817
Purchased services			
and other	76,663	75,453	80,218
Depreciation and amortization	18,061	17,754	16,557
Interest and amortization	5,669	6,321	6,038
Total operating expenses	438,844	424,453	395,198
Operating income (loss)	(10,643)	303	3,450
Net nonoperating income, net	4,623	6,721	5,343
CARES Act Provider Relief Fund and other assistance	21,519	-	-
Gain on disposal of operations	-	-	9,240
Gain on transfer of assets	1,269	2,274	2,011
Capital contributions	-	2,308	69
Increase in net position	16,768	11,606	20,113
Net position, beginning of year	166,869	155,263	135,150
Net position, end of year	\$ 183,637	\$ 166,869	\$ 155,263

Public Hospital District No. 1 of Skagit County, Washington Management's Discussion and Analysis

Health Care Outlook

Skagit Regional Health is committed to the delivery of safe, quality, and cost effective patient care consistent with the Triple Aim.

SRH believes the market will reward performance for those who effectively shift operations from volume to value. In 2020, SRH continued to partner with the University of Washington's Accountable Care Network (UWACN) while running Cascadia Care Network (CCN), SRH's Medicare Accountable Care Organization. CCN received notice of successful shared savings related to performance year 2019 this year. CCN's portion of the savings was \$1.6M dollars. These funds will be reinvested in programs and tools that increase the value of healthcare that is offered to our patients.

SRH is shifting its focus away from the acute care hospital business to an ambulatory emphasis. This will allow the District to more efficiently manage the transition from volume to value and cover more lives. The core of that strategy is the expansion and effective operation of the Skagit Regional Clinics, including expansion of virtual care and telehealth capabilities.

Operating Revenue (in thousands)

Net Patient Revenue

Net patient revenue consists of gross patient charges less contractual adjustments, charity care, and a provision for bad debt. Contractual adjustments represent the difference between gross patient charges at established rates and expected contracted payments from third-party payors with which the District has entered into agreements. In addition, the District provides care to patients, at no charge or reduced rates, who meet certain criteria under its charity care policies. The District also estimates the collectability of accounts receivable and records a provision for bad debt. The resulting net patient revenue is highly dependent on the District's payor mix.

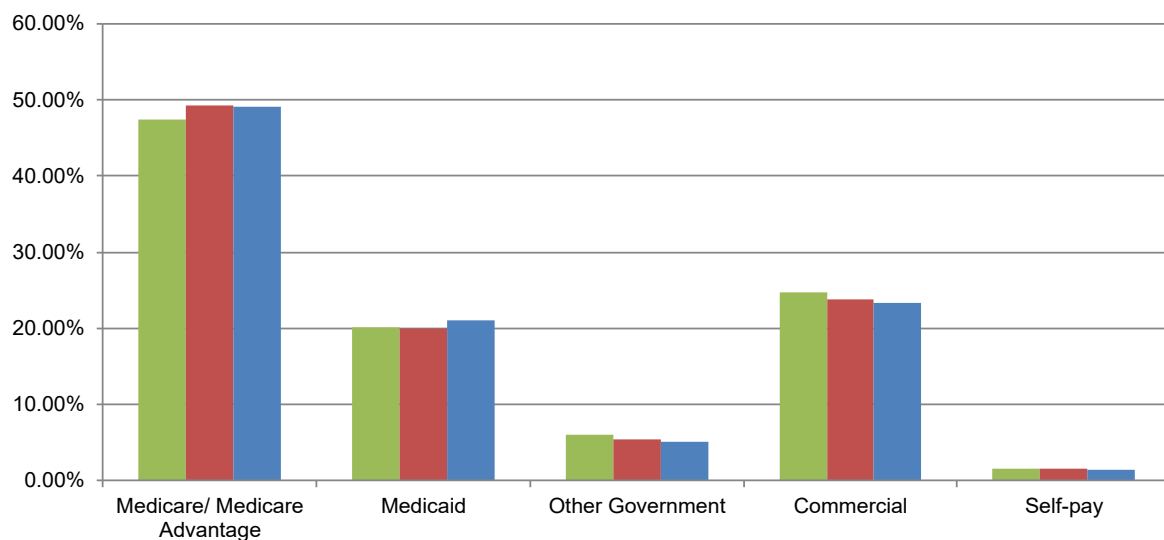
Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis (continued)

Operating Revenue (in thousands) (continued)

The table and graph below illustrate the three-year trend in SRH's payor mix, based on gross patient charges, for the years ended December 31, 2018 through 2020.

Payor Mix	Years Ended December 31,		
	2020	2019	2018
Medicare / Medicare Advantage	47.46%	49.26%	49.06%
Medicaid	20.18%	20.01%	20.99%
Other Government	6.03%	5.35%	5.08%
Commercial	24.69%	23.86%	23.39%
Self Pay	1.64%	1.52%	1.48%
	100.00%	100.00%	100.00%



2020 saw major swings in net patient revenue at SRH, brought on by the COVID-19 pandemic. While overall gross charges at SRH fell by \$33,095, SRH ended the year just slightly below \$1 higher than the year prior in net patient revenue, primarily due to an improving contractual adjustment rate. The contractual adjustment rate was positively impacted by a variety of factors, including a favorable 2014/2015 Disproportionate Share Hospital (DSH) Certified Public Expenditure Program settlement, a positive impact to the Federal Medical Assistance Percentage through CARES Act legislation. The shift of patient care to non-hospital based sites of care, and a rapid increase in the adoption of telemedicine by SRH, also increased the expected reimbursement percentage per patient charge.

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis

Operating Revenue (in thousands) (continued)

In 2019, net patient revenue at SRH grew by \$21,377 from \$374,835 in 2018 to \$396,212 in 2019. Ramp up of recently recruited primary and specialty care providers drove growth in clinic visit volume of 4.5%. Strong growth in surgery, cardiac catheterization, oncology, and endoscopy was the primary drive of the increase in net patient revenue.

Other Operating Revenue

Other operating revenue increased by \$2,645 or 9.3% from \$28,544 in 2019 to \$31,189 in 2020 compared to \$23,813 in 2018. Revenues from the 340B contracted pharmacy program increased by \$3,527 or 21.9% from \$16,100 in 2019 to \$19,628 in 2020.

Operating Expenses (in thousands)

Total operating expenses in 2020 increased by \$14,391 or 3.4%, from \$424,453 in 2019 to \$438,844 in 2020. Total operating expenses increased by \$29,255 in 2019, from \$395,198 in 2018.

Excluding providers, the District employed 1,895 full time equivalents (FTEs) for the year ending December 31, 2020, which was a decrease of 13 FTEs from the 1,908 FTEs employed in the same period in 2019, and an increase of 10 FTEs from the 1,898 FTEs employed in the same period in 2018. The observed FTE decreases in 2020 were primarily due to the District's response to the COVID-19 pandemic and involved labor reduction plans such as mandatory PTO usage, furloughs, and modifying staffing plans to reduced patient activity in selected business units.

At year-end 2020, SRH employed 229 providers, comprised of 129 doctors, 29 residents, and 71 mid-level providers. This is an increase of 34 employed providers from year-end 2019, comprised of 21 doctors and 14 mid-level providers, partially offset by a decrease of 1 resident. Growth was driven primarily by aggressive provider recruitment efforts in 2020, as well as the addition of new clinical practices, the largest of which was Cascade Ear, Nose and Throat in July 2020. A new Internal Medicine clinic was also established in September 2020 and Smokey Point Family Medicine in November 2020.

Salaries and benefits increased by \$11,492 or 4.9%, from \$236,360 in 2019 to \$247,852 in 2020. Growth in salaries is related to operational activities mentioned above as well as union and non-union staff and provider wage increases. Salaries and benefits increased by \$19,977 or 9.2%, from \$216,383 in 2018. Wage growth due to Collective Bargaining Agreements as well as labor market conditions was the primary driver of this increase.

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis (continued)

Operating Expenses (in thousands) (continued)

Professional fees increased by \$668, from \$19,080 in 2019 to \$19,748 in 2020. Increased locums usage in gastroenterology and the obstetrics programs, along with outsourced labor to staff the COVID-19 screeners and the District's laboratories, were the main drivers of this increase. In 2019, professional fees increased by \$1,895, from \$17,185 in 2018. This increase was driven primarily by locums usage in gastroenterology as well as increased informational services professional costs related to upgrades to the Epic EHR and the District's Microsoft windows environment.

The District's supply expense increased from \$69,485 for the twelve months ended December 31, 2019, to \$70,851 for the same period in 2020, an increase of \$1,366 or 2.0%. Even with the addition of a new Ear, Nose, and Throat practice and two other clinics, the pause on elective cases in surgical services due to COVID-19 had the greatest impact on supply expense. However, the combination of increased high-cost drugs and steady patient volume in Oncology led to an increase for pharmaceuticals which contributed to an overall slight increase for 2020 when compared to 2019. 2019 showed a significantly greater increase over 2018 in supply expenses, from \$58,817 in 2018 to \$69,485 in 2019, an increase of \$10,668 or 18.1%. The increase was primarily due to increased patient volume in Oncology and increased drug supply expense, as well as volume increases in surgical service lines with high patient-related supply costs, including cardiac catheterization, endoscopy and robotic surgery.

Purchased services and other expense increased \$1,210 or 1.6%, from \$75,453 in 2019 to \$76,663 in 2020. This increase was primarily related to COVID-19 laboratory testing. Additional variances include a decrease in usage of information technology purchased services and software license fees, offset by increases in rents and leases, insurance premiums and taxes. Purchased services and other expense decreased in 2019 by \$4,765 or 5.9%, from \$80,218 in 2018. This variance was primarily attributed to the insourcing of laboratory services at the SVH campus, which was partially offset by increased FTEs and salaries, as well as a decrease in usage of information technology and technical support services, and increases in software license fees, insurance premiums and taxes.

Depreciation expense of \$18,061 in 2020 was \$307 or 1.7% higher than the 2019 depreciation expense of \$17,754. In 2019, depreciation expense increased \$1,197 or 7.2% over the 2018 expense of \$16,557. In response to COVID-19, SRH reduced and deferred approximately 50% of the capital budget in 2020, focusing on quality and safety related capital needs. Major capital purchases in 2019 include the purchase of a Drager patient monitoring system and the replacement of inpatient beds across the system, along with routine replacement and upgrades to major moveable equipment.

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis

Net Nonoperating Income and Other Changes in Net Position (in thousands)

Interest and amortization expense decreased by \$652 or 10.3% to \$5,669 in 2020, from \$6,321 in 2019. In 2019, interest and amortization expense increased by \$283 or 4.7%, from \$6,038 in 2018. Interest rate savings related to the refinancing of the 2010 Hospital Revenue Bonds, which closed in December 2019, was the main driver for this increase. Closing costs related to the refinancing was the main driver of the increase in 2019.

Net nonoperating income and other changes in net position decreased by \$16,108, from \$11,303 in 2019 to \$27,411 in 2020 and decreased in 2019 by \$5,360, from \$16,663 in 2018. COVID-19 related federal and state stimulus funds from the CARES-PRF, FEMA, and other programs account for \$21,519 in 2020. This increase was partially offset by a reduction of \$2,135 in nonoperating investment income related deteriorating return rates on investments. In 2019, nonoperating investment income increased by \$1,189 over 2018. Transfers of assets related to the affiliation agreement with PHD 3 decreased from \$2,274 in 2019 to \$1,269 in 2020 flowing an increase in 2019 from 2,011 in 2018. Additional information about this transfer can be found in the "Affiliation Agreement with Snohomish County PUD No. 3" section below.

The 2018 gain on disposal of operations is related to the sale of the outpatient KD operating in December 2018 added \$9,240. Donations received for capital contributions were \$2,308 in 2019, compared with \$69 in 2018, an increase of \$2,239. SRH did not receive capital contributions in 2020. The majority of the 2019 donations were gifts from the hospital foundation for various projects including the Skagit Imaging Pavilion.

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis (continued)

Statements of Net Position (in thousands)

The following is a presentation of certain financial information derived from the District's statement of net position (in thousands):

	2020	2019	2018
Current assets			
Cash and short-term investments	\$ 104,157	\$ 49,669	\$ 40,246
Accounts receivable, net	51,444	57,800	56,207
Other current assets	22,021	19,675	16,820
Total current assets	177,622	127,144	113,273
Assets whose use is limited, net of current portion	129,709	131,444	127,829
Capital assets, net	140,806	149,780	151,991
Investments in joint ventures	13,572	13,031	12,212
Total assets	461,709	421,399	405,305
Deferred outflows of resources	14,063	10,383	5,491
Total assets and deferred outflows of resources	<u>\$ 475,772</u>	<u>\$ 431,782</u>	<u>\$ 410,796</u>
Current liabilities	\$ 99,127	\$ 70,596	\$ 59,441
Long-term debt, net of current portion	150,445	160,115	166,953
OPEB liability	30,731	22,960	23,465
Estimated professional liability	6,421	5,213	4,983
Total liabilities	286,724	258,884	254,842
Deferred inflows of resources	5,411	6,029	691
Net position			
Net investment in capital assets	17,197	17,407	11,073
Restricted for debt service	10,663	13,075	12,887
Unrestricted	155,777	136,387	131,303
Total net position	183,637	166,869	155,263
Total liabilities, deferred inflows of resources, and net position	<u>\$ 475,772</u>	<u>\$ 431,782</u>	<u>\$ 410,796</u>

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis

Statements of Net Position (in thousands) (continued)

Assets and Deferred Outflows of Resources

Total current assets of \$177,622 at December 31, 2020, were \$50,478 higher than at year-end 2019. This increase is comprised of a \$54,488 increase in cash and short-term investments, a decrease of \$6,356 in net accounts receivable, and an increase of \$2,346 in other current assets. The increase in cash and short-term assets in 2020 was related to the COVID-19 federal and state stimulus and liquidity support described above as well as an increase in the COVID-19 related PPE inventory.

Total current assets of \$127,144 at December 31, 2019, were \$13,871 higher than at year-end 2018. This increase is comprised of a \$9,423 increase in cash and short-term investments, an increase of \$1,593 in net accounts receivable, and an increase of \$2,855 in other current assets. The increase in cash and short-term assets in 2019 was related to the positive operating results during the year and improvements in AR collections.

Assets whose use is limited decreased from \$131,444 in 2019 to \$129,709 in 2020, a decrease of \$1,735, after increasing by \$3,615 from \$127,829 in 2018. The 2019 and 2020 changes were primarily related to investment returns and transfers of assets related to the affiliation agreement with PHD 3.

Net capital assets decreased in 2020 by \$8,974, from \$149,780 to \$140,806. This decrease is made up of \$9,087 of new capital assets, offset by \$8,756 in retirements and an \$18,061 increase in accumulated depreciation. In response to COVID-19 SRH reduced and deferred approximately 50% of the capital budget in 2020, focusing on quality and safety related capital needs. Net capital assets decreased in 2019 by \$2,211, from \$151,991 to \$149,780. This decrease is made up of \$15,543 of new capital assets, offset by \$16,723 in retirements and a \$17,754 increase in accumulated depreciation. Major capital projects in 2019 included the replacement of inpatient beds and IV pumps across the system, upgrade to the SVH operating room video system, as well as routine replacement of core information technology.

Investments in joint ventures increased from \$13,031 in 2019 to \$13,572 in 2020, an increase of \$541. From 2018 to 2019, joint venture investments decreased by \$819. Distributions from joint ventures accounted for the change in 2020. The increase in 2019 reflects the District's contribution to the joint ventures that participated in the building of the Skagit Imaging Pavilion, offset by distributions from the joint ventures.

Deferred outflows of resources increased from \$5,491 in 2018 to \$10,383 in 2019 and to \$14,063 in 2020. Increases in OPEB outflows related to changes in assumptions used in the actuarial analysis of the OPEB program contributed to the increase in 2020 and 2019. Deferred losses on refunding the 2012 UTGO bonds and the 2010 Revenue bonds were the main driver of the increase in 2019.

Public Hospital District No. 1 of Skagit County, Washington Management's Discussion and Analysis (continued)

Statements of Net Position (in thousands) (continued)

Liabilities and Deferred Inflows of Resources

Current liabilities increased \$28,531 from \$70,596 in 2019 to \$99,127 in 2020. This increase is comprised of an increase of \$5,110 in accrued salaries, wages and benefits, a \$28,468 increase in payments due to estimated third-party payor settlements and advances under the Medicare Accelerated and Advance Payment Program, an increase of \$56 in accrued interest, a decrease of \$3,789 in accounts payable and a decrease in the current portion of long-term debt of \$1,314. Current liabilities increased \$11,155 from \$59,441 in 2018 to \$70,596 in 2019, primarily related to an increase in payments due to third-party payors.

Long-term debt, net of current portion decreased by \$9,670 in 2020 to \$150,445 from \$160,115 in 2019. In 2019, long-term debt, net of current portion decreased by \$6,838 from \$166,953 in 2018. Normal scheduled principal payments account for the decrease in 2020 and the full refinancing of the 2010 Revenue bonds account for the decrease in 2019.

The Governmental Accounting Standards Board (GASB) issued new standards in 2015 that define how other post-employment benefit (OPEB) liabilities were measured and reported. These standards, GASB 74 and GASB 75, came into effect for plan fiscal years beginning after June 15, 2017. GASB 75, requires a liability to be recognized for OPEB plans that are not pre-funded. Changes in the OPEB liability are recognized as expense in the Statements of Revenue, Expenses, and Changes in Net position or reported as deferred inflows/outflows of resources on the Statements of Net Position, depending on the nature of those changes. The District's OPEB liability increased \$7,771 in 2020 from \$22,960 in 2019 to \$30,731 in 2020. In 2019, the OPEB liability decreased \$505 from \$23,465 in 2018. Further detail of the District's OPEB liability can be found in Note 10 to the financial statements.

Professional malpractice liability reserve increased by \$1,208 in 2020, from \$5,213 in 2019 to \$6,421. This increase is based on an actuarial estimate of the professional malpractice liability, based on historic claims and changes in volume. In 2019, the professional malpractice liability reserve increased by \$230, from \$4,983 in 2018 to \$5,213.

Affiliation Agreement with Snohomish County PUD No. 3

In accordance with the Affiliation Agreement, which was dated December 4, 2015, the District began operating Cascade Valley Hospital on June 1, 2016. The Affiliation Agreement is structured as a long-term lease (the Lease) between Snohomish PHD No. 3 d/b/a Cascade Valley Hospital and Clinics and the District. Pursuant to the Affiliation Agreement, Snohomish PHD No. 3 leased substantially all of its assets, including Cascade Valley Hospital, certain other clinic facilities, Snohomish PHD No. 3's interest as lessor in certain land leases, and intangible assets, to the District for a term of 30 years. The District will pay Snohomish PHD No. 3 an annual base rent of \$10.00 and is responsible for all costs and expenses associated with the leased assets, including maintenance and capital improvements.

Public Hospital District No. 1 of Skagit County, Washington Management's Discussion and Analysis

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

Financial Arrangement

Pursuant to the Affiliation Agreement, Snohomish PHD No. 3 will transfer all of its cash and cash equivalents in excess of a retained amount to the District by June 2017. The retained amount is equal to Snohomish PHD No. 3's known and contingent liabilities and debts plus a minimum cash balance of \$1,000,000. Thereafter, Snohomish PHD No. 3 will continue to levy and collect excess and regular property tax levies, as well as collect revenues from a lease of a medical office building owned by Smokey Point LLC. Smokey Point LLC is owned 50% by the District and 50% by Snohomish PHD No. 3. The Smokey Point LLC building is a two-story, 40,000-square-foot ambulatory center. The building is leased to UW Medicine, which operates a maternal fetal medicine clinic and the District, which operates an outpatient chemotherapy unit, an urgent care clinic, primary and specialty care clinics, and laboratory and imaging services. Snohomish PHD No. 3's excess property tax levy funds will be used solely for the purpose of paying the debt service on Snohomish PHD No. 3's outstanding unlimited tax general obligation bonds. The proceeds from the Snohomish PHD No. 3 regular property tax levy and the Smokey Point LLC lease will be used to pay Snohomish PHD No. 3's expenses, including the annual debt service on Snohomish PHD No. 3's outstanding limited tax general obligation bonds, and to fund the minimum cash balance of \$1,000,000. To the extent the amount collected by Snohomish PHD No. 3 from its regular property tax levy and the Smokey Point LLC lease exceeds Snohomish PHD No. 3's existing obligations in any year, and the Snohomish PHD No. 3 cash balance is equal to \$1,000,000, the excess funds will be transferred to the District.

In accordance with the Affiliation Agreement, the transferred funds will be deposited in Pool A of the "PHD No. 3 Support Fund." The funds in Pool A will be used by the District to: (1) support the provision of health care services rendered in Snohomish County; (2) pay for capital improvements and equipment located in Snohomish County; (3) pay for health information technology and other capital investments that may be located outside of Snohomish County if it serves both the District facilities and the Cascade Valley Hospital facilities, provided that only that portion of the costs of such improvement and equipment that reasonably relate to Snohomish PHD No. 3's usage of the capital investment shall be allocated to Snohomish PHD No. 3; and (4) to cover any losses incurred by the District in the operation of Cascade Valley Hospital services.

Public Hospital District No. 1 of Skagit County, Washington Management's Discussion and Analysis (continued)

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

At the end of each fiscal year, the District will deposit into a special fund designated as Pool B of the "PHD No. 3 Support Fund" a portion of the District's net cash flow generated from the District's operations, calculated according to a formula set forth in the Affiliation Agreement but in no case less than 1.5% of the annual net revenue generated by the District's operation of the Cascade Valley Hospital services still in operation, which will be calculated based on a three-year rolling average. The funds in Pool B may generally be used and expended by the District in the following order of priority: (1) to cover any Cascade Valley Hospital operating losses, as defined in the Affiliation Agreement, to the extent the loss is not covered by any remaining funds in Pool A; (2) to reimburse the District for expenses incurred in prior years to cover such operating losses that were not reimbursed in prior years because there were insufficient funds in Pool A or Pool B; (3) to reimburse the District for expenses incurred by the District in prior years to fund capital improvements or equipment located at the Cascade Valley Hospital facilities or for health information technology or other capital investments located elsewhere to the extent it serves both the District and Cascade Valley Hospital facilities, but only for such portion that reasonably relate to Snohomish PHD No. 3's usage of the health information technology or other capital investment, to the extent that such expenses were not reimbursed in prior years because there were insufficient funds available in Pool A or Pool B; (4) to reimburse the District for expenses incurred by the District in the current year to fund Cascade Valley Hospital capital improvements, as defined by the Affiliation Agreement; and (5) subject to certain limitations, for other expenditures that support the provision of health care services in Snohomish County.

Required Services

The Affiliation Agreement obligates the District to provide certain required services in North Snohomish County (identified by zip codes 98223, 98241, 98292, 98271, 98270, 98258, and 98252) for 5, 10, and 30-year periods. The District has the right to determine the appropriate level of required services to meet the needs of the residents of North Snohomish County, such as the number of medical/surgical beds, ICU beds, observation beds, emergency department bays, operating rooms, procedure rooms, examination and treatment rooms, and staffing levels, provided it does so reasonably after appropriate evaluation and analysis of any impact a reduction in level of service may have on the residents of North Snohomish County.

During the five-year period following affiliation (the Five-Year Period), the District must provide OB/GYN, pediatric physician, and related Cascade Valley Hospital facilities services at any location within North Snohomish County, which the District reasonably believes will appropriately serve the needs of the residents of North Snohomish County. The District must, however, continue to provide or cause to be provided, primary care services at the Darrington and Granite Falls clinics during the Five-Year Period.

Public Hospital District No. 1 of Skagit County, Washington Management's Discussion and Analysis

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

During the ten-year period following the affiliation (the Ten-Year Period), the District must provide inpatient and outpatient surgery, general inpatient acute services, and orthopedic general surgeons in North Snohomish County. In order to satisfy the Ten-Year Period commitment, the District is required to continuously maintain and operate Cascade Valley Hospital as a general acute care hospital duly licensed by the state of Washington and certified under the Medicare and Medicaid programs, with at least the following services: general inpatient acute services, inpatient surgery, a 24-hour emergency department, observation unit, ancillary medical services to the extent required to maintain state acute care hospital licensure, and an organized medical staff consisting, at a minimum, of primary care physicians, orthopedic surgeons, and general surgeons. The District is granted the right during the Ten-Year Period to modify or reduce the level of service provided at Cascade Valley Hospital provided: (1) it continues to provide an appropriate level of such services in North Snohomish County to meet the needs of residents; and (2) it has given notice to Snohomish PHD No. 3 and allowed Snohomish PHD No. 3 to provide input before said service is eliminated, relocated, modified, or reduced. Nonetheless, if the District elects to discontinue outpatient surgery services at Cascade Valley Hospital during the Ten-Year Period, the District must provide such services during remainder of the Ten-Year Period at an alternative location within North Snohomish County at appropriate levels to meet the needs of residents.

During the Thirty-Year Period following the affiliation, the District must provide a 24-hour emergency department, observation unit, ancillary medical services, and primary care physicians in North Snohomish County. After the Ten-Year Period, the District is entitled to relocate the required services that were subject to the Ten-Year Period commitment and that continue to be subject to the Thirty-Year Period commitment to any location within North Snohomish County that it reasonably believes will appropriately meet the needs of the residents of North Snohomish County.

In the event that the District intends to eliminate, reduce, relocate, or change any required service in a manner not described above, it must give Snohomish PHD No. 3 90 days' advance written notice of such intent (the Change Notice). The Change Notice must include a detailed statement of the reasons for the intended action and must be accompanied by an analysis prepared by a qualified independent health care consultant analyzing the potential impact on the accessibility and availability of health care services for residents of North Snohomish County. Snohomish PHD No. 3 is granted the right to determine, in its sole and absolute discretion, whether it will permit the District to proceed with the requested change. Snohomish PHD No. 3 must notify the District within 90 days of receipt of the Change Notice whether it will permit or deny the requested change. If Snohomish PHD No. 3 fails to respond in writing within 90 days of receipt of the Change Notice, Snohomish PHD No. 3 will be deemed to have approved the proposed service change.

Dispute Resolution

Subject to the parties' right to equitable relief, all controversies, claims, and disputes arising in connection with the Affiliation Agreement must be settled by mutual consultation between the parties, but failing amicable settlement must be settled finally by arbitration, conducted in Seattle, Washington, in accordance with the rules and procedures promulgated by Judicial Dispute Resolution before one arbitrator. The decision of the arbitrator is final and binding on the parties.

Public Hospital District No. 1 of Skagit County, Washington Management's Discussion and Analysis (continued)

Affiliation Agreement with Snohomish County PUD No. 3 (continued)

Termination and Unwinding

The Affiliation Agreement permits termination of the Affiliation Agreement and an unwinding of the affiliation upon the happening of certain conditions. The Affiliation Agreement may be terminated: (1) by mutual written consent of the District and Snohomish PHD No. 3; (2) by either the District or Snohomish PHD No. 3 in the event of an uncured breach of the Affiliation Agreement or the Lease by the other party; (3) by the District in the event that a catastrophic event occurs that was not caused by the District and makes it no longer viable to continue operating Cascade Valley Hospital services as originally contemplated; (4) by either the District or Snohomish PHD No. 3 if Snohomish PHD No. 3 requires the District to purchase the leased facilities and assets as set forth in a certain provision of the Affiliation Agreement governing damages to the facilities related to the District's negligence; and (5) after six years, by the District if the District has incurred sustained operating losses, as defined in the Affiliation Agreement, in the operation of Cascade Valley Hospital services.

To effect an unwind, the District will transfer all of the facilities and assets owned by Snohomish PHD No. 3 back to Snohomish PHD No. 3 following a process consistent with how they were originally transferred. In addition, the District will transfer to Snohomish PHD No. 3 any remaining cash balance in Pool A or Pool B and will assign in part or grant sublicenses under any electronic health records software license, maintenance, and support services agreements in effect at Cascade Valley Hospital facilities immediately prior to termination.

All of the commitments by Snohomish PHD No. 3 to provide any cash or similar support to the District will terminate after the date the District provides written notice of termination of the Affiliation Agreement or concurrent with the termination of the definitive agreements for any other reason, provided that Snohomish PHD No. 3 will remain obligated to provide any cash or similar support on a pro rata basis for the applicable period of time prior to the notice of termination. The Affiliation Agreement provides provisions for certain operating commitments and specific provisions in event the agreement is discontinued.

Unlimited Tax General Obligation Bond, 2019

In September 2019, the District issued a bond in the amount of \$29,040,000 to carry out the advance refunding of a portion of the District's outstanding Unlimited Tax General Obligation Bonds, 2012. The 2019 bond is an unlimited tax general obligation of the District's taxpayers. The principal and interest on this bond will be paid by a levy on taxable property in the District, authorized by a 2004 super majority vote on the property owners of the District. This advanced refunding issue had a total savings to the taxpayers of the District of \$3,126,813 and a net present value savings of \$2,886,456 at issuance.

Hospital Revenue Refunding Bond, 2019

In December 2019, the District issued a bond in the amount of \$32,775,000 to carry out the advance refunding of the District's outstanding Hospital Revenue Bonds, 2010. The advance refunding will save the District \$8,425,503 over the sixteen-year term of the bond with a net present value savings of \$6,611,503.

Public Hospital District No. 1 of Skagit County, Washington Management's Discussion and Analysis

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of Skagit Regional Health's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's financial management at Skagit Regional Health Business Center, 1415 East Kincaid Street, Mount Vernon, Washington 98273.

Public Hospital District No. 1 of Skagit County, Washington

Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31,	
	2020	2019
CURRENT ASSETS		
Cash	\$ 4,176,433	\$ 1,787,525
Short-term investments	99,980,841	47,881,458
Patient accounts receivable, less allowance for uncollectible accounts of \$12,460,367 and \$11,530,743	45,287,556	50,167,058
Other receivables	6,156,532	7,632,775
Assets limited as to use, required for current liabilities	8,648,287	7,967,435
Supplies inventory	8,248,180	5,719,533
Prepaid expenses and other assets	4,804,834	5,121,283
Interest receivable	320,052	866,812
Total current assets	177,622,715	127,143,879
ASSETS LIMITED AS TO USE		
Board-designated for capital improvements	110,785,315	109,082,481
Board-designated for professional liability	1,655,843	1,666,216
Restricted for CVH project funds A & B	15,252,330	15,587,012
Restricted bond reserve funds held by trustee	9,519,908	9,599,080
Restricted for bond redemption fund	1,143,397	3,476,260
	138,356,793	139,411,049
Less amounts required for current liabilities	(8,648,287)	(7,967,435)
	129,708,506	131,443,614
CAPITAL ASSETS		
Land	11,712,330	11,712,330
Construction in progress	852,394	681,273
Depreciable capital assets, net of accumulated depreciation	128,241,551	137,386,658
	140,806,275	149,780,261
INVESTMENTS IN JOINT VENTURES	13,572,092	13,031,379
Total assets	461,709,588	421,399,133
DEFERRED OUTFLOWS OF RESOURCES		
Deferred OPEB outflows	7,706,233	3,298,767
Deferred losses on refundings	6,356,392	7,084,730
	14,062,625	10,383,497
Total assets and deferred outflows of resources	\$ 475,772,213	\$ 431,782,630

Public Hospital District No. 1 of Skagit County, Washington
Statements of Net Position

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31,	
	2020	2019
CURRENT LIABILITIES		
Accounts payable	\$ 16,220,996	\$ 20,010,344
Accrued salaries, wages, and employee benefits	29,149,588	24,038,386
Estimated third-party payor settlements	9,082,701	15,862,321
Advances under Medicare Advance Payment Program	35,247,911	-
Accrued interest payable	483,287	427,435
Current portion of long-term debt	8,943,549	10,257,803
	<hr/>	<hr/>
Total current liabilities	99,128,032	70,596,289
 LONG-TERM DEBT, net of current portion	 150,444,671	 160,115,233
 OPEB LIABILITY	 30,730,533	 22,960,006
 ESTIMATED PROFESSIONAL LIABILITY	 6,420,712	 5,212,761
	<hr/>	<hr/>
Total liabilities	286,723,948	258,884,289
	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES		
Deferred OPEB inflows	5,411,301	6,029,159
 NET POSITION		
Net investment in capital assets	17,196,312	17,406,902
Restricted for debt service	10,663,305	13,075,340
Unrestricted	155,777,347	136,386,940
	<hr/>	<hr/>
Total net position	183,636,964	166,869,182
	<hr/>	<hr/>
Total liabilities, deferred inflows of resources, and net position	\$ 475,772,213	\$ 431,782,630
	<hr/>	<hr/>

Public Hospital District No. 1 of Skagit County, Washington
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31,	
	2020	2019
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$16,489,448 and \$18,722,444)	\$ 397,011,718	\$ 396,212,369
Other operating revenues	31,189,046	28,543,982
Total operating revenues	428,200,764	424,756,351
OPERATING EXPENSES		
Salaries and wages	197,389,255	191,088,222
Employee benefits	50,462,745	45,271,792
Professional fees	19,748,420	19,079,925
Supplies	70,851,022	69,484,832
Purchased services	51,101,038	45,683,614
Other	25,561,587	29,769,872
Depreciation and amortization	18,061,013	17,753,617
Interest and amortization	5,668,992	6,320,991
Total operating expenses	438,844,072	424,452,865
Operating (loss) income	(10,643,308)	303,486
NONOPERATING INCOME, net		
CARES Act Provider Relief Fund and other assistance	21,518,665	-
Investment income	1,965,001	4,099,725
Revenues from tax levies for general obligation bonds	4,260,185	4,577,499
Interest and amortization expense	(1,581,565)	(1,824,716)
Other expense	(20,324)	(131,560)
Nonoperating income, net	26,141,962	6,720,948
Excess of revenues over expenses before capital contributions and transfers	15,498,654	7,024,434
CAPITAL CONTRIBUTIONS	-	2,307,606
GAIN ON TRANSFER OF ASSETS	1,269,128	2,274,075
INCREASE IN NET POSITION	16,767,782	11,606,115
NET POSITION, beginning of year	166,869,182	155,263,067
NET POSITION, end of year	\$ 183,636,964	\$ 166,869,182

Public Hospital District No. 1 of Skagit County, Washington

Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	\$ 395,111,600	\$ 403,175,397
Cash paid to suppliers	(172,055,662)	(164,092,767)
Cash paid to employees	(239,995,595)	(230,765,869)
Cash received from Medicare Advance Payment Program	35,247,911	-
Other cash receipts	29,863,574	23,169,342
Net cash from operating activities	48,171,828	31,486,103
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from CARES Act Provider Relief Fund and other assistance	21,518,665	-
Net cash from noncapital financing activities	21,518,665	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(9,087,027)	(14,746,414)
Principal payments on long-term debt	(10,244,992)	(9,355,006)
Escrow payment for refunding of 2012 UTGO and refunding bonds	-	(29,554,720)
Escrow payment for refunding of 2010 revenue bonds	-	(32,335,093)
Interest paid on long-term debt	(7,206,191)	(7,974,723)
Proceeds from issuance of long-term debt	-	61,815,000
Cash paid for financing costs	-	(698,742)
Cash received from tax revenues for general obligation bonds	4,254,221	4,584,310
Cash received from transfer of assets	1,269,128	2,274,075
Cash received from capital contributions	-	2,307,606
Other	(20,324)	(131,560)
Net cash from capital and related financing activities	(21,035,185)	(23,815,267)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash contributions to joint ventures	-	(2,074,425)
Cash distributions from joint ventures	1,927,762	3,734,569
Net change in investments and assets limited as to use	(51,333,895)	(13,244,602)
Investment income	3,156,350	4,877,930
Net cash from investing activities	(46,249,783)	(6,706,528)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,405,525	964,308
CASH AND CASH EQUIVALENTS, beginning of year	4,022,064	3,057,756
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,427,589</u>	<u>\$ 4,022,064</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash	\$ 4,176,433	\$ 1,787,525
Cash and cash equivalents in assets limited as to use	2,251,156	2,234,539
	<u>\$ 6,427,589</u>	<u>\$ 4,022,064</u>

Public Hospital District No. 1 of Skagit County, Washington
Statements of Cash Flows (continued)

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating (loss) income	\$ (10,643,308)	\$ 303,486
Adjustments to reconcile operating income to net cash from operating activities		
Net change in OPEB liability	2,745,203	3,008,271
Investment income considered an investing activity	(333,240)	(540,769)
Interest expense considered a capital financing activity	5,668,992	6,320,991
Depreciation and amortization	18,061,013	17,753,617
Income recognized from joint ventures	(2,468,475)	(2,479,673)
Changes in operating assets and liabilities		
Accounts receivable, net	4,879,502	761,855
Other receivables	1,476,243	(2,354,198)
Supplies inventory	(2,528,647)	(927,593)
Prepaid expenses	316,449	(1,000,778)
Accounts payable	(3,789,348)	1,624,490
Accrued salaries, wages, and employee benefits	5,111,202	2,585,874
Estimated third-party payor settlements	(6,779,620)	6,201,173
Reserve for professional liability costs	1,207,951	229,357
Advances under Medicare Advance Payment Program	35,247,911	-
Net cash from operating activities	<u>\$ 48,171,828</u>	<u>\$ 31,486,103</u>
DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Capital assets financed with capital lease obligation	<u>\$ -</u>	<u>\$ 796,118</u>

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 1 – Organization

Organization – Public Hospital District No. 1 of Skagit County, Washington (the District), is organized as a municipal corporation pursuant to the laws of the state of Washington. The District is governed by an elected seven (7)-member board. The District, doing business as Skagit Valley Hospital (SVH), added the clinic division on July 1, 2010. The clinic division is known as Skagit Regional Clinics (SRC). On January 1, 2011, the District created the system name Skagit Regional Health (SRH). This name encompasses both SVH's and SRC's operations. SVH is a licensed 137-bed acute care hospital in Mount Vernon, Washington. The District also operates Camano Rural Health Clinic on Camano Island, Washington.

UW Medicine and Public Hospital District No. 3 of Snohomish County (PHD No. 3), which operated Cascade Valley Hospital and Clinics (CVH) in Arlington, Washington, entered into a long-term alliance with UW Medicine with respect to clinical and other ventures and a lease by the District of PHD No. 3's health care facilities (UW Affiliation Agreement).

Pursuant to the UW Affiliation Agreement, UW Medicine serves as SVH's and CVH's complex tertiary and quaternary health system for specialty care services not available in mutually designated communities and provided by UW Medicine. UW Medicine is available as a resource for these services and is committed to providing rapid and efficient access to advanced medical care that could not otherwise be provided locally.

The District and PHD No. 3 also entered into an Affiliation Agreement Regarding the Lease and Operation of CVH, (the Affiliation Agreement). CVH is a 48-bed facility that is approximately 20 miles southeast of SVH's main campus. In accordance with Affiliation Agreement, the District began operating CVH on June 1, 2016. The Affiliation Agreement is structured as a long-term lease (the Lease) between PHD No. 3 and the District. PHD No. 3 leased substantially all of its assets, certain other clinic facilities, PHD No. 3's interest as lessor in certain leases, and intangible assets to the District for a term of 30 years. The District will pay PHD No. 3 an annual base rent of \$10 and is responsible for all costs and expenses associated with the leased assets, including maintenance and capital improvements.

Pursuant to the Affiliation Agreement, PHD No. 3 transferred all of its cash and cash equivalents of a retained amount to the District in 2017. The retained amount is equal to PHD No. 3's known and contingent liabilities and debts plus a minimum cash balance of \$1,000,000. Thereafter, PHD No. 3 will continue to levy and collect excess and regular property tax levies, as well collect revenues from a lease of a medical office building owned by Smokey Point LLC. Smokey Point LLC is owned 50% by the District and 50% by PHD No. 3. The proceeds from PHD No. 3's regular property tax levy and the Smokey Point LLC lease will be used to pay PHD No. 3's expenses, including the annual debt service on outstanding limited tax general obligations, and to fund the minimum cash balance of \$1,000,000. To the extent the amount collected by PHD No. 3 from its regular property tax levy and the Smokey Point LLC lease exceeds PHD No. 3's existing obligations in any year, and the PHD No. 3 cash balance is equal to \$1,000,000, the excess funds will be transferred to the District. Cash transferred by PHD No. 3 to the District resulted in a gain on transfer of assets of \$1,269,128 and \$2,274,075 in 2020 and 2019, respectively.

The Affiliation Agreement provides provisions for certain operating commitments and specific provisions in event the agreement is discontinued.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies

Accounting standards – The District reports its financial information in a form that complies with the pronouncements of the Governmental Accounting Standards Board (GASB).

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

Use of estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents include demand and interest-bearing deposits with an original maturity of three months or less.

Patient accounts receivable – Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the District 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. For receivables associated with services provided to patients who have third-party coverage, the District 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' balances (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District 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.

Supplies inventory – Supplies inventory, consisting of medicine and medical supplies, is valued at the lower of cost (computed on the first-in, first-out basis), or net realizable value.

Capital assets – Land, buildings, and equipment acquisitions are recorded at cost. Improvements and replacements of land, buildings, and equipment are capitalized. The District's capitalization threshold is \$1,000 per item and a useful life of at least three years. Maintenance and repairs are expensed. The cost of land, buildings, and equipment sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Depreciation is recorded over the estimated useful life of each class of depreciable asset using the American Hospital Association's guidelines and is computed using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives used by the District are as follows:

Land improvements	3 – 40 years
Buildings	15 – 40 years
Fixed equipment	3 – 25 years
Major movable and minor equipment	3 – 20 years

Interest on borrowed funds less any interest earned on temporarily invested funds is capitalized on construction projects as a cost of the related project from the date of borrowing until the construction period ends and the related asset is placed in service. Capitalized interest is depreciated over the estimated useful life of the related asset.

Federal income taxes – The District, as a political subdivision of the state of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code.

Assets limited as to use and short-term investments – Periodically, the Board of Commissioners sets aside cash resources for the funding of future capital improvements and self-insurance reserves. In addition, certain funds are restricted by bond indentures to be used solely for debt service or for the funding of future capital projects. Pool A and Pool B funds are restricted for capital improvements and operations of CVH as defined in the Affiliation Agreement. These funds are invested in bankers' acceptances, obligations of the United States Government, the State Treasurer's Investment Pool, and certificates of deposit with financial institutions in accordance with state guidelines.

All District investments are carried at market value. Investment income earned on self-insurance funds and the revenue bond indenture agreements are reported as other operating revenue. Realized and unrealized investment income or losses on other investments are reported as nonoperating gains and losses.

Investments in joint ventures – The District has investments in several different joint ventures providing health care services and accounts for these investments using the equity method, under which the District's share of net income is reported in other operating revenues.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; medical malpractice; and employee accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The District pays certain workers' compensation claims on a self-insured basis. The District has purchased stop-loss insurance to cover workers' compensation claims that exceed stated limits and has recorded an estimated reserve for incurred but not reported claims based on an actuarial estimate, which was \$4,078,000 and \$3,003,000 at December 31, 2020 and 2019, respectively. These amounts are recorded in accrued salaries, wages, and employee benefits on the statements of net position. The District also pays certain professional liability claims on a self-insured basis (Note 11).

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Postemployment Benefits Other Than Pensions (OPEB) – The net OPEB liability is measured at the actuarial present value of projected benefit payments for the District's covered members. Deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense are recognized as they occur and are based on the changes in the net OPEB liability between measurement dates (Note 10).

Net position – Net position of the District is classified into three components. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of related debt that is attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position represents noncapital assets that must be used for a specific purpose. The unrestricted component of net position is the remaining net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

Operating revenues and expenses – The District's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing health care services—the District's primary business. Nonexchange revenues, such as revenues for tax levies and contributions for other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs related to general obligation bonds. Tax levy income and debt service related to general obligation bonds and peripheral or incidental transactions are reported as nonoperating gains and losses.

Net patient service revenue – Patient service revenue is recorded at established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Preliminary settlements under reimbursement agreements with Medicare and Medicaid are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Reimbursements received from certain third-party payors are subject to audit and retroactive adjustment. Provision for possible adjustment as a result of audits is recorded in the financial statements. When reimbursement settlements are received, or when information becomes available with respect to reimbursement changes, any variations from amounts previously accrued are accounted for in the period in which the settlements are received or the change in information becomes available.

CARES Act Provider Relief Fund – The District has received funds from the Provider Relief Fund under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Per United States Department of Health and Human Services (HHS) guidance, these funds are to be used towards COVID-19 specific expenditures and to assist with lost revenues associated with lower volumes and cancellations of procedures and services. For the year ended December 31, 2020, the District recorded these funds as nonoperating income totaling \$19,562,059. The District recognizes revenue upon meeting the eligibility requirements associated with the funding. The CARES Act guidelines stipulate certain conditions that are required to be met, such as the incurrence of eligible expenditures or loss of revenue. Those conditions are identified, for accounting and financial reporting purposes, as eligibility requirements.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Medicare Advance Payment Program – In April 2020, the District applied for expedited Medicare payments through the Centers for Medicare and Medicaid Services (CMS) Medicare Accelerated and Advance Payment Program. SRH received approximately \$8 million in funds through the program in June, which was subsequently repaid, and a second advance of approximately \$35 million in September. As of December 31, 2020, the District has recorded an advance liability totaling \$35,247,911.

Charity care – The District provides care to patients who meet certain criteria under its charity care policies. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Forgone revenue for charity care provided during 2020 and 2019 measured by the District's standard charges was \$11,888,232 and \$9,999,472, respectively.

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

The District has evaluated subsequent events through April 14, 2021, which is the date the financial statements are available to be issued.

Note 3 – Net Patient Service Revenue

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

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at predetermined, specific rates for each hospital discharge. Discharges are classified according to a list of Medicare severity diagnosis-related groups (MS-DRGs). Each MS-DRG has a payment weight assigned to it, based on the average resources used to treat Medicare patients in that MS-DRG. The District's classification of MS-DRGs and the appropriateness of their admission are subject to an independent review by a peer review organization. Most outpatient services to Medicare beneficiaries are paid prospectively based on ambulatory payment classifications (APCs). The District's cost reports have been reviewed and/or audited by the Medicare fiscal intermediary through 2015. Net revenue billed under Medicare totaled approximately \$161,869,000 and \$169,972,000 for 2020 and 2019, respectively. Unsecured net patient accounts receivable due from Medicare at December 31, 2020 and 2019, were approximately \$15,649,000 and \$16,478,000, respectively.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 3 – Net Patient Service Revenue (continued)

Medicaid – Beginning July 1, 2005, a new inpatient Medicaid reimbursement methodology for all noncritical access Washington State governmental hospitals was implemented called “Certified Public Expenditures.” Under this program, the District is paid for inpatient Medicaid services based on certain costs as determined by Medicaid. The estimated costs for inpatient care are calculated as a ratio of cost to charges from a base year (two years before the service year). Under this program, the District will be reimbursed the higher of the cost of service or “baseline” reimbursement that would have been received based on the pre-July 1 inpatient payment system. Outpatient services are paid on a fee schedule or a percentage of allowed charges based on a ratio of the District’s allowable operating expenses to total allowable revenue. The District has finalized the Medicaid CPE cost reports through 2014. Net revenue billed under the Medicaid program totaled approximately \$54,821,000 and \$52,803,000 for 2020 and 2019, respectively. Unsecured net patient accounts receivable due from Medicaid at December 31, 2020 and 2019, were approximately \$5,736,000 and \$4,355,000, respectively.

The District’s estimates of final settlements to or from Medicare and Medicaid through 2020 have been recorded in the accompanying statements of net position. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between the net amounts accrued and subsequent settlements are recorded in operations at the time of settlement.

Other third-party payors – The District has also entered into various payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations, which provide for payment or reimbursement at amounts different from published rates. Contractual adjustments represent the difference between published rates for services and amounts paid or reimbursed by these third-party payors.

The following are the components of net patient service revenue for the District for the years ended December 31, 2020 and 2019:

	2020	2019
Gross patient service revenue	\$ 1,443,483,002	\$ 1,476,577,763
Less adjustments to gross patient service revenue		
Contractual adjustments	1,018,093,604	1,051,643,478
Provision for bad debts	16,489,448	18,722,444
Charity care	11,888,232	9,999,472
Total adjustments to gross patient service charges	1,046,471,284	1,080,365,394
Net patient service revenue	\$ 397,011,718	\$ 396,212,369

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 4 – Deposits, Investments, and Assets Limited as to Use

The District makes investments in accordance with Washington State law. Eligible investments include obligations secured by the U.S. Treasury, other obligations of the United States or its agencies, certificates of deposit with approved institutions, insured money market funds, commercial paper, registered warrants of local municipalities, the Washington State Local Government Investment Pool (LGIP), eligible bankers' acceptances, and repurchase agreements.

As a political subdivision of the state, the District categorizes deposits and investments to give an indication of the risk assumed at year-end. Category 1 includes deposits and investments that are insured, registered, or held by the District's agent in the District's name. Category 2 includes uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered deposits and investments for which the securities are held by the broker or dealer, or its trust department or agent, but not in the District's name.

At December 31, 2020 and 2019, all deposits and investments of the District are categorized as Category 1 and consist of the following:

	2020	2019
Unrestricted cash	\$ 4,176,433	\$ 1,787,525
Short-term investments		
Government agency securities	11,224,750	14,996,173
Investment in State Treasurer's Investment Pool	88,756,091	32,885,285
	99,980,841	47,881,458
Assets limited as to use		
Cash and cash equivalents	2,251,156	2,234,539
Government agency securities	76,919,656	105,549,219
Investment in State Treasurer's Investment Pool	59,185,981	31,627,291
	138,356,793	139,411,049
Total deposits and investments	\$ 242,514,067	\$ 189,080,032

The composition of investments, reported at fair value by investment type at December 31, 2020, and excluding unrestricted cash, short-term investments, and other assets limited as to use balances of \$154,369,661, is as follows:

Investment Type	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
Government agency securities	\$ 88,144,406	100%

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 4 – Deposits, Investments, and Assets Limited as to Use (continued)

The composition of investments, reported at fair value by investment type at December 31, 2019, and excluding unrestricted cash, short-term investments, and other assets limited as to use balances of \$68,534,640, is as follows:

Investment Type	Quoted Prices in Active Markets for Identical Assets (Level 1)	Percentage of Totals
Government agency securities	\$ 120,545,392	100%

The District's deposits and investments had the following maturities as of December 31, 2020:

Deposit/Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1–5
Demand deposit	\$ 4,176,433	\$ -	\$ -
Money market	2,251,156	-	-
Government agency securities	88,144,406	71,142,769	17,001,637
Investment in State Treasurer's Investment Pool	147,942,072	-	-
	<u>\$ 242,514,067</u>	<u>\$ 71,142,769</u>	<u>\$ 17,001,637</u>

The District participates in the LGIP. The Office of the State Treasurer of Washington (OST) manages and operates the LGIP. Participation by local governments is voluntary. The investment policies of the LGIP are the responsibility of the OST and any proposed changes are reviewed by the LGIP Advisory Committee. The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17 CFR 270.2a-7). Rule 2a-7 funds are limited to high-quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The objectives of the State Treasurer's investment practices for the LGIP, in priority order, will be safety, liquidity, and return on investment. Separate financial statements for the LGIP are available from the OST. The LGIP is not subject to risk evaluation.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits the types of securities to those authorized by statute; therefore, credit risk is very limited. Obligations of the U.S. government and agencies are not considered to have credit risk.

Deposits – All of the District's deposits are either insured or collateralized. The District's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Collateral protection is provided by the Washington Public Deposit Protection Commission (WPDPC).

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 4 – Deposits, Investments, and Assets Limited as to Use (continued)

Custodial credit risk – Custodial credit risk is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. All U.S. government securities are held by the District's safekeeping custodian acting as an independent third party and carry no custodial credit risk.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District mitigates credit risk by limiting the percentage of the portfolio invested with any one issuer.

Interest rate risk – Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The District manages interest rate risk by having policy limitations on the maximum maturity of any one security to less than 36 months from settlement date to maturity date unless matched to a specific cash flow requirement.

In addition to interest and investment income included in nonoperating income, interest income included in other operating revenues totaled \$333,240 and \$540,769 for the years ended December 31, 2020 and 2019, respectively.

Note 5 – Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2020 and 2019, were as follows:

	Beginning Balance January 1, 2020	Additions	Retirements	Account Transfers	Ending Balance December 31, 2020
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 11,712,330	\$ -	\$ -	\$ -	\$ 11,712,330
Construction in progress	681,273	988,606	-	(817,485)	852,394
Total nondepreciable capital assets	12,393,603	988,606	-	(817,485)	12,564,724
DEPRECIABLE CAPITAL ASSETS					
Land improvements	7,340,456	13,783	-	-	7,354,239
Buildings and leasehold improvements	145,790,145	76,269	(51,945)	9,560	145,824,029
Fixed equipment	23,501,620	708,563	(611,376)	16,928	23,615,735
Movable equipment	139,499,334	7,299,806	(8,092,868)	790,997	139,497,269
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION					
Land improvements	(3,979,997)	(264,012)	-	-	(4,244,009)
Buildings and leasehold improvements	(72,410,236)	(5,705,405)	51,945	-	(78,063,696)
Fixed equipment	(19,715,181)	(608,299)	611,376	-	(19,712,104)
Movable equipment	(82,639,483)	(11,483,297)	8,092,868	-	(86,029,912)
Depreciable capital assets, net	137,386,658	(9,962,592)	-	817,485	128,241,551
	<u>\$ 149,780,261</u>	<u>\$ (8,973,986)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 140,806,275</u>

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 5 – Capital Assets (continued)

	Beginning Balance January 1, 2019	Additions	Retirements	Account Transfers	Ending Balance December 31, 2019
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 11,712,330	\$ -	\$ -	\$ -	\$ 11,712,330
Construction in progress	2,278,516	3,726,030	-	(5,323,273)	681,273
Total nondepreciable capital assets	13,990,846	3,726,030	-	(5,323,273)	12,393,603
DEPRECIABLE CAPITAL ASSETS					
Land improvements	7,340,456	-	-	-	7,340,456
Buildings and leasehold improvements	140,007,942	1,060,866	-	4,721,337	145,790,145
Fixed equipment	23,143,017	308,541	-	50,062	23,501,620
Movable equipment	145,223,106	10,447,095	(16,722,741)	551,874	139,499,334
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION					
Land improvements	(3,715,709)	(264,288)	-	-	(3,979,997)
Buildings and leasehold improvements	(66,858,189)	(5,552,047)	-	-	(72,410,236)
Fixed equipment	(19,120,592)	(594,589)	-	-	(19,715,181)
Movable equipment	(88,019,531)	(11,342,693)	16,722,741	-	(82,639,483)
Depreciable capital assets, net	138,000,500	(5,937,115)	-	5,323,273	137,386,658
	<u>\$ 151,991,346</u>	<u>\$ (2,211,085)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149,780,261</u>

The District has included equipment under capital lease obligations with a cost of \$2,983,239 and \$9,122,585 in capital assets at December 31, 2020 and 2019, respectively. Amortization expense of \$632,122 and \$2,456,683 related to this equipment was recorded in depreciation and amortization expense for the years ended 2020 and 2019, respectively. Accumulated amortization for equipment under capital lease was \$1,531,643 and \$5,458,476 at December 31, 2020 and 2019, respectively.

Depreciation and amortization expense of operating assets for the years ended December 31, 2020 and 2019, was \$18,061,013 and \$17,753,617, respectively.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 6 – Investments in Joint Ventures

Cascade Imaging Associates, LLC – Together with a local radiology group, the District formed Cascade Imaging Associates, LLC (CIA), a limited liability company, to provide magnetic resonance imaging and computer-assisted tomography services to the residents of the community. The District has a 50% interest in CIA at December 31, 2020. During the years ended December 31, 2020 and 2019, the District recognized operating income of \$1,169,644 and \$1,565,814, respectively, for its share of the net income realized by CIA. The District's recorded investment in CIA was \$726,657 and \$347,013 at December 31, 2020 and 2019, respectively.

Medical Information Network – North Sound, Inc. – Together with area hospitals, the District joined Medical Information Network – North Sound, Inc. (MIN – NS), a Washington nonprofit corporation, to electronically connect patients, providers, and others to a regional electronic health record to improve quality and efficiency of health care services in North Sound communities. The District had a 50% interest in MIN – NS until March 2019. During the year ended December 31, 2019, the District recognized operating loss of \$51,123 for its share of net loss realized by MIN – NS. The District's recorded investment in MIN – NS was \$0 at December 31, 2019.

Skagit Digital Imaging, LLC – Together with a local radiology group, the District formed Skagit Digital Imaging, LLC (SDI), a limited liability company, to provide mammography and stereotactic biopsy services to the residents of the community. The District has a 50% interest in SDI at December 31, 2020. During the years ended December 31, 2020 and 2019, the District recognized operating loss of \$17,466 and operating income of \$63,596, respectively, for its share of the net income realized by SDI. The District's recorded investment in SDI was \$1,718,941 and \$1,736,407 at December 31, 2020 and 2019, respectively.

Skagit Hospice Services, LLC – Together with Public Hospital District No. 304 of Skagit County, Washington, the District formed Skagit Hospice Services, LLC, dba Hospice of the Northwest (Hospice), a limited liability company, to provide hospice services to the residents of the community. The District has a 50% interest in Hospice at December 31, 2020. During the years ended December 31, 2020 and 2019, the District recognized operating income of \$573,518 and \$112,918, respectively, for its share of the net income realized by Hospice. The District's recorded investment in Hospice was \$1,857,330 and \$1,283,812 at December 31, 2020 and 2019, respectively.

Skagit Valley Real Estate Partnership – As part of the closing of the integration with SRC in 2013, the District purchased a membership interest in Skagit Valley Real Estate Partnership (SVREP), a partnership that invests in and develops real property located mainly in Skagit and Snohomish Counties, Washington. The District has a 30% interest in SVREP at December 31, 2020. During the years ended December 31, 2020 and 2019, the District recognized operating income of \$326,520 and \$402,808, respectively, for its share of the net income realized by SVREP. The District's recorded investment in SVREP was \$4,660,557 and \$4,806,537 at December 31, 2020 and 2019, respectively.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 6 – Investments in Joint Ventures (continued)

Smokey Point Medical Center, LLC – Together with PHD No. 3, the District formed Smokey Point Medical Center, LLC (SPMC), a limited liability company, which owns the building, land, and equipment leased to the District and PHD no. 3 to operate the Smokey Point clinics. The District has a 50% interest in SPMC at December 31, 2020. During the years ended December 31, 2020 and 2019, the District recognized operating income of \$400,997 and \$395,841, respectively, for its share of the net income realized by SPMC. The District's recorded investment in SPMC was \$4,608,607 and \$4,857,610 at December 31, 2020 and 2019, respectively.

Aggregated financial information for all of the District's joint ventures is summarized below:

	2020	2019
Current assets	\$ 9,476,516	\$ 6,323,075
Noncurrent assets, net	<u>27,544,265</u>	<u>29,594,519</u>
	<u><u>\$ 37,020,781</u></u>	<u><u>\$ 35,917,594</u></u>
Current liabilities	\$ 3,559,092	\$ 2,709,702
Long-term liabilities	11,252,633	12,424,668
Equity	<u>22,209,056</u>	<u>20,783,224</u>
	<u><u>\$ 37,020,781</u></u>	<u><u>\$ 35,917,594</u></u>
Revenue	\$ 31,180,377	\$ 29,804,450
Expenses	<u>25,148,083</u>	<u>23,711,638</u>
Net income	<u><u>\$ 6,032,294</u></u>	<u><u>\$ 6,092,812</u></u>

For more information on these joint ventures, including financial statements for the individual joint ventures, please contact the Business Services office of the District.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 7 – Long-Term Debt and Other Noncurrent Liabilities

Interest rates and maturities of long-term debt at December 31, 2020 and 2019, for the District consisted of the following:

	<u>2020</u>	<u>2019</u>
Direct placement revenue refunding bond, 2019, 3.08%, due serially on December 1, in amounts from \$800,000 in 2021 to \$7,105,000 in 2035, maturing in 2035.	\$ 32,130,000	\$ 32,775,000
Direct placement unlimited tax general obligation refunding bond, 2019, 1.85% to 2.27%, due serially on December 1, in amounts from \$300,000 in 2021 to \$6,130,000 in 2028, maturing in 2028.	28,745,000	29,040,000
Revenue and refunding bonds, 2016, 4.00% to 5.00%, due serially on December 1, in amounts from \$1,775,000 in 2021 to \$5,875,000 in 2032, maturing in 2037, net of unamortized premium of \$5,313,734 and \$5,629,401 in 2020 and 2019, respectively.	61,563,734	63,584,401
Unlimited tax general obligation refunding bonds, 2012, 5.00%, due serially on December 1, in amounts from \$3,455,000 in 2021 to \$4,155,000 in 2023, maturing in 2023, net of unamortized premium of \$2,534,894 and \$2,855,090 in 2020 and 2019, respectively.	13,939,893	17,400,090
Revenue and refunding bonds, 2013A series, 4.00% to 5.00%, due serially on December 1, in amounts from \$1,835,000 in 2021 to \$7,895,000 in 2036, maturing in 2037, net of unamortized premium of \$1,646,039 and \$1,749,999 in 2020 and 2019, respectively.	20,846,039	22,699,999
Note payable to individuals, due in monthly installments from \$4,700 to \$12,400, including interest of 4.50% maturing in 2024.	632,033	787,168
Note payable to bank, paid in full during 2020.	-	112,279
Capital lease obligations, stated at present value of future minimum lease payments.	<u>1,531,521</u>	<u>3,974,099</u>
	159,388,220	170,373,036
Less current portion	<u>(8,943,549)</u>	<u>(10,257,803)</u>
	<u><u>\$ 150,444,671</u></u>	<u><u>\$ 160,115,233</u></u>

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (continued)

Under the terms of the revenue and refunding bonds, the District has agreed to maintain certain financial ratios and meet certain covenants. Management is not aware of any violations with its debt covenants.

During 2019, the District issued the 2019 direct placement revenue bonds to carry out a taxable refunding of the 2010 revenue bonds. The refunding resulted in the recognition of an accounting loss of \$1,593,000, which will be deferred and amortized over the life of the 2010 bond, which was set to mature in 2035 and is classified as a deferred outflow of resources on the statement of net position. The refunding decreased the District's aggregate debt service payments by \$8,426,000 over the next 16 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$6,612,000. On December 1, 2020, the revenue bond, a taxable bond, converted to a tax-exempt bond bearing an interest at a tax-exempt rate of 3.08% per annum.

During 2019, the District issued the 2019 direct placement unlimited tax general obligation refunding bond to carry out a taxable refunding of a portion of the 2012 unlimited tax general obligation and refunding bonds. The refunding resulted in the recognition of an accounting loss of \$3,731,700, which will be deferred and amortized over the life of the 2012 bond, which was set to mature in 2028 and is classified as a deferred outflow of resources on the statement of net position. The refunding decreased the District's aggregate debt service payments by \$3,127,000 over the next 9 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$2,886,000. If certain conditions are met, on December 1, 2022, the UTGO bond, a taxable bond, will convert to a tax-exempt bond with an interest rate of 1.85%. If conditions are not met, the taxable bond remains outstanding, with an interest rate of 2.27% until such time that the conversion occurs or until maturity thereof.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (continued)

Changes in the District's noncurrent liabilities during the years ended December 31, 2020 and 2019, are summarized below:

	Beginning Balance January 1, 2020	Additions	Reductions	Ending Balance December 31, 2020	Amounts Due Within One Year
LONG-TERM DEBT					
2019 Direct placement revenue refunding bond	\$ 32,775,000	\$ -	\$ 645,000	\$ 32,130,000	\$ 800,000
2019 Direct placement UTGO refunding bond	29,040,000		295,000	28,745,000	300,000
2012 UTGO refunding bonds	17,400,090	-	3,460,197	13,939,893	3,455,000
2013 Revenue and refunding bonds - series A	22,699,999	-	1,853,960	20,846,039	1,835,000
2016 Revenue and refunding bonds	63,584,401	-	2,020,667	61,563,734	1,775,000
Notes payable to individuals	787,168	-	155,135	632,033	166,827
Note payable to bank	112,279	-	112,279	-	-
Capital lease obligations	3,974,099		2,442,578	1,531,521	611,722
Total long-term debt	170,373,036	-	10,984,816	159,388,220	8,943,549
ESTIMATED PROFESSIONAL LIABILITY	5,212,761	1,207,951	-	6,420,712	-
Total noncurrent liabilities	\$ 175,585,797	\$ 1,207,951	\$ 10,984,816	\$ 165,808,932	\$ 8,943,549

	Beginning Balance January 1, 2019	Additions	Reductions	Ending Balance December 31, 2019	Amounts Due Within One Year
LONG-TERM DEBT					
2019 Direct placement revenue refunding bond	\$ -	\$ 32,775,000	\$ -	\$ 32,775,000	\$ 645,000
2019 Direct placement UTGO refunding bond	-	29,040,000	-	29,040,000	295,000
2010 Revenue bonds	31,250,469	-	31,250,469	-	-
2012 UTGO refunding bonds	48,227,115	-	30,827,025	17,400,090	3,140,000
2013 Revenue and refunding bonds - series A	24,468,959	-	1,768,960	22,699,999	1,750,000
2016 Revenue and refunding bonds	65,535,069	-	1,950,668	63,584,401	1,705,000
Notes payable to individuals	954,316	-	167,148	787,168	167,945
Note payable to bank	223,554	-	111,275	112,279	112,279
Capital lease obligations	5,584,564	796,118	2,406,583	3,974,099	2,442,579
Total long-term debt	176,244,046	62,611,118	68,482,128	170,373,036	10,257,803
ESTIMATED PROFESSIONAL LIABILITY	4,983,404	229,357	-	5,212,761	-
Total noncurrent liabilities	\$ 181,227,450	\$ 62,840,475	\$ 68,482,128	\$ 175,585,797	\$ 10,257,803

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 7 – Long-Term Debt and Other Noncurrent Liabilities (continued)

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending December 31,	Bonds and Notes Payable			Direct Placement Bonds			Capital Leases Payable		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 7,231,827	\$ 4,181,975	\$ 11,413,802	\$ 1,100,000	\$ 1,642,116	\$ 2,742,116	\$ 611,722	\$ 56,138	\$ 667,860
2022	7,730,952	3,838,953	11,569,905	1,140,000	1,610,666	2,750,666	475,825	32,675	508,500
2023	8,268,820	3,471,483	11,740,303	1,290,000	1,459,898	2,749,898	339,005	13,201	352,206
2024	4,233,831	3,078,503	7,312,334	5,850,000	1,425,516	7,275,516	104,969	2,116	107,085
2025	4,285,000	2,912,269	7,197,269	6,155,000	1,306,467	7,461,467	-	-	-
2026–2030	24,410,000	11,557,332	35,967,332	22,435,000	4,652,158	27,087,158	-	-	-
2031–2035	13,645,000	5,717,718	19,362,718	22,905,000	2,664,970	25,569,970	-	-	-
2036–2037	17,681,603	1,337,250	19,018,853	-	-	-	-	-	-
Total	87,487,033	\$ 36,095,483	\$ 123,582,516	\$ 60,875,000	\$ 14,761,791	\$ 75,636,791	\$ 1,531,521	\$ 104,130	\$ 1,635,651
Net unamortized premiums and discounts	9,494,666								
	<u>\$ 96,981,699</u>								

Annual debt service is calculated assuming conversion of the 2019 Direct placement UTGO refunding bond to a tax-exempt bond.

Note 8 – Deferred Compensation and Pension Plans

The District has a deferred compensation plan and pension plans created in accordance with Internal Revenue Code §457(b), §401(a), and §414(h). The plans are available to eligible employees and collectively provide for District matching contributions of a maximum of 9% of the employee's gross compensation earned in the prior year. Current District policy is to fund contributions. Plan provisions and contribution requirements are established by the District and may be amended by the District's Board of Commissioners.

Under the §401(a) plan, the District makes contributions on behalf of eligible employees based upon funding levels ranging from 4% to 9% of an employee's gross earnings plus an additional 1/10 of 1% for each year of the first 10 years of credited service. The District contributes up to 9% not to exceed the maximum federal amount for the year. Employees are not allowed to contribute to the §401(a) plan. All employee contributions are made to the §457(b) plan.

The §457(b) plan is available to eligible employees and permits them to defer a portion of their salary until withdrawn in future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

The §414(h) plan allows a limited group of employees to make an irrevocable election prior to the beginning of the plan year. The maximum contribution is the §415 limit minus any employer §401(a) contributions. These pick-up contributions are completely voluntary and are in addition to any District contributions made to the §401(a) plan and any contributions that are made to the §457(b) deferred compensation plan. Generally, the benefits may only be distributed at termination of employment or death.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 8 – Deferred Compensation and Pension Plans (continued)

The District has limited administrative involvement and does not perform the investing function for the plans. The District does not hold the assets of the plans in a trustee capacity and does not perform fiduciary accountability for the plans. Therefore, the District employees' deferred compensation plans are not reported on the financial statements of the District.

The District's contributions to the employee benefit plans totaled approximately \$9,488,000 and \$8,834,000 in 2020 and 2019, respectively. Contributions made by employees to the benefit plans totaled approximately \$11,306,000 and \$10,168,000 in 2020 and 2019, respectively. For more information on the retirement plans, contact the District's director of human resources.

Note 9 – Property Taxes

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior May 31. Assessed values are established by the county assessor at 100% of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the county treasurer.

The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general district purposes. As the District has never established a regular tax levy, any future regular levy would require voter approval. The Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people.

For 2020 and 2019, the District did not have a regular tax levy. There is a voter-approved tax levy for service of the unlimited tax general obligation bonds. For 2020 and 2019, the tax levy for bond service was \$0.73 and \$0.79 per \$1,000 on a total assessed valuation of \$5,765,812,508 and \$5,299,175,803, for a total levy of \$4,154,385 and \$4,206,811, respectively. The District also receives revenue from timber taxes. Timber tax revenue in 2020 and 2019 was \$105,800 and \$370,688, respectively.

Property taxes are recorded as receivables when levied. Because state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 10 – Postemployment Benefits Other Than Pensions (OPEB)

General information about the OPEB Plan

Plan description – Eligible retirees and spouses are entitled to subsidies associated with postemployment medical benefits provided through the Public Employee Benefits Board (PEBB), which is an agent multiple-employer defined benefit plan. The PEBB was created within the Washington State Health Care Authority to administer medical, dental, and life insurance plans for public employees and retirees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Benefits provided – The subsidies provided by PEBB and valued in this report include the following:

- Explicit medical subsidy for post-65 retirees and spouses
- Implicit medical subsidy
- Implicit dental subsidy
- Premium reimbursement for those retired between ages 62 and 65

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lesser of \$150 or 50% of the monthly premiums. As of January 1, 2019, the subsidy was increased to \$168 per month, and as of January 1, 2020, the subsidy was increased to \$183 per month. As of the valuation date, the retirees and spouses paid the premium minus \$150 when the premium was over \$300 per month and paid half the premium when the premium is lower than \$300.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

GASB 75 requires the projection of the total cost of benefit payments to be based on claims costs or age adjusted premiums approximating claims costs. Because claims costs are expected to vary by age and sex, we have used claims costs that vary by age and sex. The projection of retiree premiums is based on current amounts for the retirees' share of the premium, projected with the medical trend assumption. We also include implicit subsidies for dental coverage.

Employees covered by benefit terms – At December 31, 2020 and 2019, the following employees were covered by the benefit terms:

	2020	2019
Inactive employees or beneficiaries currently receiving benefit payments	97	97
Active plan members	2,067	2,067
	<u>2,164</u>	<u>2,164</u>

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

Contributions – PEBB administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. Contributions are set each biennium as part of the Washington State’s budget process. The benefits are funded on a pay-as you-go basis.

Other information – PEBB does issue a stand-alone financial report, but information about PEBB can be found at <http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>.

Total OPEB liability

The District’s total OPEB liability was \$30,730,533 and \$22,960,006 as of the reporting date of December 31, 2020 and 2019, respectively. The corresponding measurement date was December 31, 2019 and 2018, respectively, and the actuarial valuation date was July 1, 2018. GASB 75 allows a lag of up to one year between the measurement date and the reporting date. No adjustment is required between the measurement date and the reporting date.

Actuarial assumptions and other inputs – The total OPEB liability in the December 31, 2020, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	3.50% = 0.75% real wage growth above inflation. The individual’s salary growth is used for use in the actuarial cost method.
Healthcare cost trend rates	Pre-65 ranging from 6.80% to 4.30% and Post-65 ranging from 12.30% to 1.10%
Discount Rate (Liabilities)	2.74% and 4.10% as of December 31, 2020 and 2019, respectively

The discount rate was based on the Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years. GASB 75 requires that the discount rate be based on a 20-year high quality (AA/Aa or higher) municipal bond rate.

Demographic assumptions regarding retirement, mortality, turnover, and marriage are based on assumptions used in the 2018 actuarial valuation for Washington State Public Employees’ Retirement System (PERS), and modified for the District.

- The assumed rates of disability under PERS tier 2 and 3 from the 2018 actuarial valuation are less than 0.1% for ages 50 and below and continue to be low after that. An assumption of a 0% disability rate for all ages was used.
- For service retirement, the post-2013, plans 2 and 3, with less than 30 years of service assumptions from the 2018 actuarial valuation for Washington State PERS was used.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

- For mortality, the assumptions from the 2018 actuarial valuation for Washington State PERS (RP-2000 base mortality table, adjusted by -1 year for both males and females, with generational mortality adjustments using projection scale BB) was used.
- For other termination of employment, we used the assumptions from the 2018 actuarial valuation for Washington State PERS, but no less than 2% per year.

The actuarial assumptions used for the December 31, 2020, reporting were based on a census date of July 1, 2018.

Changes in the total OPEB liability

Balance at December 31, 2018	<u>\$ 23,464,988</u>
Service cost	2,656,838
Interest	893,888
Effect of economic/demographic gains/(losses)	2,176,604
Effect of assumption changes or inputs	(5,956,536)
Benefit payments	<u>(275,776)</u>
Net Changes	<u>(504,982)</u>
Balance at December 31, 2019	<u>22,960,006</u>
Service cost	1,992,258
Interest	1,013,604
Effect of assumption changes or inputs	5,229,798
Benefit payments	<u>(465,133)</u>
Net Changes	<u>7,770,527</u>
Balance at December 31, 2020	<u><u>\$ 30,730,533</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.44% in 2018 to 4.10% in 2019 and 2.74% in 2020.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (1.74%)	Discount Rate (2.74%)	1% Increase (3.74%)
2020			
Total OPEB liability	<u>\$ 37,932,707</u>	<u>\$ 30,730,533</u>	<u>\$ 25,197,489</u>
	1% Decrease (3.10%)	Discount Rate (4.10%)	1% Increase (5.10%)
2019			
Total OPEB liability	<u>\$ 28,035,815</u>	<u>\$ 22,960,006</u>	<u>\$ 19,034,200</u>

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
2020			
Total OPEB liability	<u>\$ 23,999,777</u>	<u>\$ 30,730,533</u>	<u>\$ 40,075,384</u>
2019			
Total OPEB liability	<u>\$ 18,380,023</u>	<u>\$ 22,960,006</u>	<u>\$ 29,192,932</u>

The health cost trend assumptions apply to both current and future retirees and generally decrease over time from a high of 6.8% to 4.3% for pre-65 retirees and from a high of 7.5% to 3.6% for post-65 retirees. The dental cost trend assumptions generally increase over time and range from 1.1% to 4.0%.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 10 – Postemployment Benefits Other Than Pensions (OPEB) (continued)

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB

For the years ended December 31, 2020 and 2019, the District recognized OPEB expense of \$3,210,336 and \$3,284,047, respectively, which was included in Employee Benefits in the Statement of Revenues, Expenses, and Changes in Net Position. The District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources as of December 31:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2020		
Differences between expected and actual experience	\$ 1,784,424	\$ -
Changes of assumptions or other inputs	5,921,809	5,411,301
	<u>\$ 7,706,233</u>	<u>\$ 5,411,301</u>
2019		
Differences between expected and actual experience	\$ 1,980,514	\$ -
Changes of assumptions or other inputs	1,318,253	6,029,159
	<u>\$ 3,298,767</u>	<u>\$ 6,029,159</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2021	\$ 204,474
2022	204,474
2023	204,474
2024	204,474
2025	204,474
Thereafter	1,272,562
	<u>\$ 2,294,932</u>

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 11 – Professional Liability Insurance

The District has purchased professional liability insurance from Physicians Insurance (PI) on a claims-made basis in the amount of \$1 million per occurrence, with a \$5 million annual aggregate limit. The District has a retention of \$100,000 per claim with an aggregate retention of \$300,000. PI, together with MedPro and AIG, also provides excess coverage on a claims-made basis in the amount of \$45 million per occurrence, with a \$49 million annual aggregate limit. The District accrues an actuarial estimate of the expected value of losses and related expenses for unreported incidents and claims on an occurrence basis which was \$6,421,000 and \$5,213,000 at December 31, 2020 and 2019, respectively.

Note 12 – Joint Venture Transactions

The District provides services, including accounting, management, and ancillary services, to the joint ventures (Note 6). The District was reimbursed approximately \$14,336,000 and \$13,526,000 in expenses related to these services for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the District had a total of approximately \$1,944,000 and \$2,168,000, respectively, in accounts receivable from joint ventures.

The joint ventures provide various services to the District (Note 6). The District paid approximately \$15,172,000 and \$15,680,000 to the joint ventures for providing these services for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the District had a total of approximately \$962,000 and \$789,000, respectively, in accounts payable to joint ventures.

Note 13 – Concentrations of Credit Risk

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at December 31, 2020 and 2019, was as follows:

	2020	2019
Medicare	35%	34%
Medicaid	13%	9%
Group Health	9%	7%
Patient and self-pay	0%	1%
Commercial	30%	34%
Other third-party payors	13%	15%
	<u>100%</u>	<u>100%</u>

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 14 – Commitments and Contingencies

Operating leases – The District leases certain facilities and equipment under operating lease arrangements. The following is a schedule by year of future minimum lease payments as of December 31, 2020:

2021	\$8,194,390
2022	6,764,454
2023	6,778,412
2024	6,756,363
2025	6,416,027
2026–2030	29,730,335
2031	<u>3,071,973</u>
	<u>\$ 67,711,954</u>

Rent expense on operating leases for 2020 and 2019 was \$9,524,000 and \$8,949,000, respectively.

Litigation – The District 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 District's future financial position or results from operations.

Compliance with laws and regulations – The health care industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding, and billing for services, has increased substantially. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Note 15 – Collective Bargaining Agreements

At December 31, 2020, the District had a total of approximately 2,642 employees. Of this total, 1,918 employees are covered by collective bargaining agreements. There are no employees under agreements that expired during 2020 and 546 employees under an agreement that expires during 2021. The District does not anticipate any significant interruptions as a result of negotiations surrounding the collective bargaining agreement.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 16 – COVID-19 Pandemic

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a global pandemic. In February 2020, the Governor of the state of Washington declared a state of emergency instructing state agencies to use all resources necessary to prepare for and respond to the outbreak and, in March 2020, issued a “Stay Home, Stay Healthy” proclamation including an order to halt elective surgeries and dental services to reserve critical equipment for COVID-19 health care workers. Elective and non-urgent medical procedures were later resumed in May 2020. The global crisis resulting from the spread of COVID-19 had a substantial impact on the District’s operations during the year ended December 31, 2020. Management cannot currently estimate the duration of the impact of the COVID-19 pandemic on the organization; neither are they able to predict how the pandemic will evolve nor how various government entities will respond to its evolution. Should the District’s business be subject to reduced capacity or should closures occur, operations would be adversely affected. Even without government orders, patients may choose to postpone or decline elective care. Ongoing material adverse impacts from the COVID-19 pandemic could result in reduced revenue and cash flow.

In April 2020, the District applied for and received advances from the Medicare under the Medicare Accelerated and Advance Payment Program, administered by Centers for Medicare & Medicaid Services (CMS), of \$44,059,888. This amount is treated as an advance liability bearing no interest, with a recoupment period that was originally scheduled to begin 120 days following receipt of the accelerated payments. On September 30, 2020, a new funding bill was enacted which delays recoupment of such funds. The finalized funding bill now gives hospitals one year before Medicare can claim payments to repay the advance payments. Additionally, the measure lowers the interest rate on outstanding payments after the 29-month period from 10.25% to 4%. The District refunded \$8,811,977 in September 2020 and expects recoupment to begin on the remaining amount in September 2021. It will have 29 months from that point to fully repay the advance if it not already recouped by Medicare. While the recoupment period extends past December 31, 2021, because the District intends to repay the advance in 2021, the amount was classified as a current liability as of December 31, 2020.

The District applied for \$2 million in expedited funding from the Federal Emergency Management Agency (FEMA) Public Assistance Program. The FEMA Public Assistance Program provides partial funding for costs related to emergency protective measures conducted as a result of the COVID-19 pandemic. In November 2020, the District received notice of project funding of \$811,000, which represents expedited funding for estimated costs incurred by the District for the period from January through September 2020. The grant revenue is recorded as nonoperating revenue on the Statements of Revenues, Expenses, and Changes in Net Position.

During April, May, and June 2020, the District received funds under the CARES Act Provider Relief Fund, administered by the U.S. Department of Health & Human Services (HHS), of \$19,562,059. The District has recognized the amounts received as nonoperating revenue. The District was required to agree to the terms and conditions associated with the funds. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are to be used for expenses or lost revenue attributable to COVID-19. Also, anti-fraud monitoring and auditing will be done by HHS and the Office of the Inspector General. HHS may issue more specific guidance in the future on how the lost revenue and expenses should be calculated, which may result in modification to management’s estimates in future periods.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

Note 17 – Termination of Participation in PEBB

Beginning January 1, 2021, the District no longer participates in the Public Employees Benefits Board (PEBB) Program for post-employment benefits. This resulted in a \$28.1 million gain on reversal of the OPEB liability, \$7.7 million decrease in deferred outflows of resources, and a \$5.4 million decrease in deferred inflows of resources in January 2021.

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

To the Board of Commissioners
Public Hospital District No. 1 of Skagit County, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the District as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated April 14, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Everett, Washington
April 14, 2021

Required Supplementary Information

Public Hospital District No. 1 of Skagit County, Washington
Schedule of Changes in Total Other Post-Employment Benefits
and Related Ratios

	2020	2019	2018	2017
Total OPEB liability				
Service cost	\$ 1,992,258	\$ 2,656,838	\$ 2,322,431	\$ 2,377,362
Interest	1,013,604	893,888	800,469	688,677
Changes of benefit terms	-	-	-	-
Effect of economic/demographic gains/(losses)	-	2,176,604	-	-
Effect of assumption changes or inputs	5,229,798	(5,956,536)	1,628,431	(852,947)
Benefit payments	(465,133)	(275,776)	(278,124)	(266,904)
Net change in total OPEB liability	7,770,527	(504,982)	4,473,207	1,946,188
Total OPEB liability - beginning	22,960,006	23,464,988	18,991,781	17,045,593
Total OPEB liability - ending	<u>\$ 30,730,533</u>	<u>\$ 22,960,006</u>	<u>\$ 23,464,988</u>	<u>\$ 18,991,781</u>
Plan fiduciary net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net OPEB liability	<u>\$ 30,730,533</u>	<u>\$ 22,960,006</u>	<u>\$ 23,464,988</u>	<u>\$ 18,991,781</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>
Covered-employee payroll	<u>\$ 158,595,040</u>	<u>\$ 154,175,746</u>	<u>\$ 170,215,023</u>	<u>\$ 150,792,481</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>19.38%</u>	<u>14.89%</u>	<u>13.79%</u>	<u>12.59%</u>

*This schedule is presented to illustrate the requirement to show information for 10 years.
However, until a full 10-year trend is compiled, the District will present information for available years.

Changes in benefit terms – There were no applicable changes during the period.

Changes of assumptions – Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic and health assumptions each period. The discount rate changed from 3.78% in 2017 to 3.44% in 2018 to 4.10% in 2019 and 2.74% in 2020. Beginning with December 31, 2019, the Medicare contribution trend reflects the January 1, 2020, Medicare explicit subsidy increase to \$183 per month. Beginning December 31, 2020, the value of excise tax for high cost or “Cadillac” health plans and the Health Insurer Fee from 2021 onwards are excluded due to the December 20, 2019, enactment of H.R. 1865. As this is a newly adopted standard, a full 10-year trend is not available.

