



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

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

December 31, 2021 and 2020

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Public Hospital District No. 1 of Skagit County, Washington as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Public Hospital District No. 1 of Skagit County, Washington as of December 31, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis on pages 4 through 22 and the Schedule of Changes in Total Other Post-Employment Benefits and Related Ratios on page 56 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2022 on our consideration of Public Hospital District No. 1 of Skagit County, Washington'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 Public Hospital District No. 1 of Skagit County, Washington'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 Public Hospital District No. 1 of Skagit County, Washington's internal control over financial reporting and compliance.

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

Everett, Washington

April 15, 2022

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

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 15.3%, or \$65.7 million, from \$428.2 million in 2020 to \$493.9 million in 2021. Over the same period, total operating expenses grew by 14.0%, or \$61.4 million, from \$438,844 million in 2020 to \$500,231 million in 2021.
- SRH ended 2021 with an operating loss of \$6.3 million. This represents a \$4.3 million improvement from the 2020 operating loss of \$10.6 million. In 2021, SRH also had a net non-operating income of \$36.2 million, as a result of a gain on the exit from OPEB of \$28.4 million, and a gain on transfer of assets of \$1.2 million producing an increase in net position of \$31.3 million for 2021.
- In December 2021, the District carried out the advance refunding of the outstanding Hospital Revenue Improvement and Refunding Bonds, 2013A, with the issuance of the Hospital Revenue Refunding Bond, Series 2021. The advance refunding will save the District's taxpayers a total of \$4.3 million and a net present value savings of \$3.4 million at the time of issuance.
- The District has made 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.

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis

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 of 2020, SRH postponed elective surgical procedures that required an inpatient stay through the end of the year.

The Food and Drug Administration issued emergency use authorization of the Pfizer-BioNTech and Moderna COVID-19 Vaccines for use in individuals 18 years of age or older in the fall and winter of 2020. The District began operating vaccination clinics to administer the vaccines to those eligible according to the risk based rollout plan defined by the State of Washington. The District continued to operate the vaccination clinics as supplies increased through the first half of 2021, including the addition of a third vaccine approved for emergency use authorization developed by Johnson & Johnson, and more individuals became eligible. SRH adapted operations to include access to Covid-19 vaccine booster shots as they became available in 2021.

Coinciding with the vaccine rollout, the COVID-19 pandemic continued to evolve throughout 2021 mutating into several new variants, resulting in surges in infections and hospitalizations. These surges, along with nationwide labor shortages, global supply chain challenges, and inflationary pressures strained operations and increased costs.

This District's pandemic response will continue to adapt and evolve as the pandemic lingers.

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis (continued)

Financial Highlights (continued)

COVID-19 (continued)

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

- **Medicare Accelerated and Advance Payment Program:** 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. In September 2021, SRH repaid the \$35 million advance in full.
- **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 2021 in several general and targeted distributions. SRH has received approximately \$25 million in funds through December 2021. SRH has recognized all of these funds as non-operating 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 is to be repaid in two installments, SRH repaid 50% of the deferred amount in December 2021, and the remaining 50% is to be remitted by December 31, 2022. As a result, SRH has a liability of \$3,863,987 related to this deferral at December 31, 2021.
- **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 \$1.2 million through this funding source. Of this \$1.2 million, SRH recognized \$972 thousand in 2020 and \$270 thousand in 2021 as non-operating revenue on the Statements of Revenues, Expenses, and Changes in Net Position. SRH continues to submit claims to FEMA for expenses incurred across 2021.
- **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 other organization 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

Operating Statistics

Following are key operating statistics for the years ended December 31, 2021, 2020, and 2019:

Statistical Volumes and Definitions ⁽¹⁾

VOLUME	2021	2020	2019
Skagit Valley Hospital			
Admissions (excludes Newborns)			
Medical/Surgical	5,828	6,018	6,711
Obstetrics	944	872	934
Behavioral Health	395	308	383
Total Admissions	7,167	7,198	8,028
Discharges (excludes Newborns)			
Medical/Surgical	5,741	5,926	6,653
Obstetrics	918	866	922
Behavioral Health	402	335	401
Total Discharges	7,061	7,127	7,976
Patient Days (excludes Newborns)			
Medical/Surgical	31,935	29,570	29,523
Obstetrics	1,696	1,613	1,671
Behavioral Health	3,904	3,972	3,722
Total Patient Days	37,535	35,155	34,916
Average Length of Stay (excludes Newborns)			
Medical/Surgical	5.56	4.99	4.44
Obstetrics	1.85	1.86	1.81
Behavioral Health	9.71	11.86	9.28
Total Overall Average Length of Stay	5.32	4.93	4.38
Occupancy (excludes Newborns)	75.1%	70.1%	69.8%
Surgical Cases			
Inpatient Cases	1,050	1,394	1,521
Outpatient Cases	5,586	4,333	4,576
Total Surgical Cases	6,636	5,727	6,097
Endoscopy Cases	6,763	5,850	6,652
Deliveries	861	810	864
Emergency Department Visits ⁽²⁾	31,895	29,306	33,900
Oncology Visits			
Medical Visits	19,851	18,392	20,339
Radiation Therapy Visits	10,708	11,130	11,236
Total Oncology Visits	30,559	29,522	31,575
Diagnostic Imaging Procedures			
CT	21,938	20,254	20,931
MRI	9,206	8,275	8,841
X-Ray	68,199	57,639	67,708
Other Diagnostic Imaging	37,861	34,386	37,424
Total Diagnostic Imaging Procedures	137,204	120,554	134,904
Cath Lab Procedures	3,611	3,328	3,507

⁽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)

Operating Statistics (continued)

Statistical Volumes and Definitions ⁽¹⁾

VOLUME	2021	2020	2019
Cascade Valley Hospital			
Admissions (excludes Newborns)			
Medical/Surgical	1,166	1,187	1,248
Obstetrics	144	141	160
Total Admissions	1,310	1,328	1,408
Discharges (excludes Newborns)			
Medical/Surgical	1,152	1,176	1,241
Obstetrics	140	138	156
Total Discharges	1,292	1,314	1,397
Patient Days (excludes Newborns)			
Medical/Surgical	5,042	4,909	5,402
Obstetrics	246	238	276
Total Patient Days	5,288	5,147	5,678
Average Length of Stay (excludes Newborns)			
Medical/Surgical	4.38	4.17	4.35
Obstetrics	1.76	1.72	1.77
Total Overall Average Length of Stay	4.09	3.92	4.06
Occupancy (excludes Newborns)	30.2%	29.3%	32.4%
Surgical Cases			
Inpatient Cases	470	517	525
Outpatient Cases	1,385	1,079	983
Total Surgical Cases	1,855	1,596	1,508
Endoscopy Cases	1,207	822	807
Deliveries	129	127	143
Emergency Department Visits ⁽²⁾	18,937	17,102	19,779
Diagnostic Imaging Procedures			
CT	7,854	6,833	6,961
MRI	1,245	1,243	1,242
X-Ray	11,797	11,347	13,458
Other Diagnostic Imaging	10,720	8,543	8,696
Total Diagnostic Imaging Procedures	31,616	27,966	30,357
Skagit Regional Health - Clinics			
Provider Clinic Visits			
Primary Care Clinic Visits	191,696	171,050	190,824
Specialty Care Clinic Visits	187,755	149,862	147,873
Total Provider Clinic Visits	379,451	320,912	338,697

⁽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

Performance Overview

The following is a comparison of 2021 actual revenues, expenses, and changes in net position results to 2020 and 2019 results (in thousands):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues			
Net patient service revenue	\$ 463,178	\$ 397,012	\$ 396,212
Other operating revenues	<u>30,731</u>	<u>31,189</u>	<u>28,544</u>
Total operating revenues	<u>493,909</u>	<u>428,201</u>	<u>424,756</u>
Operating expenses			
Salaries and wages	227,549	197,389	191,088
Employee benefits	55,817	50,463	45,272
Professional fees	22,326	19,748	19,080
Supplies	83,177	70,851	69,485
Purchased services and other	87,319	76,663	75,453
Depreciation and amortization	17,979	18,061	17,754
Interest and amortization	<u>6,064</u>	<u>5,669</u>	<u>6,321</u>
Total operating expenses	<u>500,231</u>	<u>438,844</u>	<u>424,453</u>
Operating income (loss)	(6,322)	(10,643)	303
CARES Act Provider Relief Fund and other assistance	4,828	21,519	-
Gain on termination of participation in PEBB	28,436	-	-
Other nonoperating income, net	<u>2,974</u>	<u>4,623</u>	<u>6,721</u>
Nonoperating income, net	36,238	26,142	6,721
Capital contributions	188	-	2,308
Gain on transfer of assets	<u>1,237</u>	<u>1,269</u>	<u>2,274</u>
Increase in net position	31,341	16,768	11,606
Net position, beginning of year	<u>183,637</u>	<u>166,869</u>	<u>155,263</u>
Net position, end of year	<u>\$ 214,978</u>	<u>\$ 183,637</u>	<u>\$ 166,869</u>

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis (continued)

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 2021, SRH continued to partner with the University of Washington's Accountable Care Network (UWACN) and the Embright Clinically Integrated Network while running Cascadia Care Network (CCN), SRH's Medicare Accountable Care Organization. In 2021, CCN received notice of successful shared savings related to performance year 2020. CCN's portion of the savings was \$3.3 million dollars. These funds will be reinvested in programs and tools that increase the value of healthcare that is offered to our patients.

SRH has been increasingly focused on providing care in the most appropriate venues to better align with the goals of the Triple Aim. This will allow the District to more effectively manage the transition from volume to value and cover more lives. The core of this strategy is the growth and effective operation of the Skagit Regional Clinics, including expansion of virtual care and telehealth capabilities.

Operating Revenue (in thousands)

Net Patient Revenue

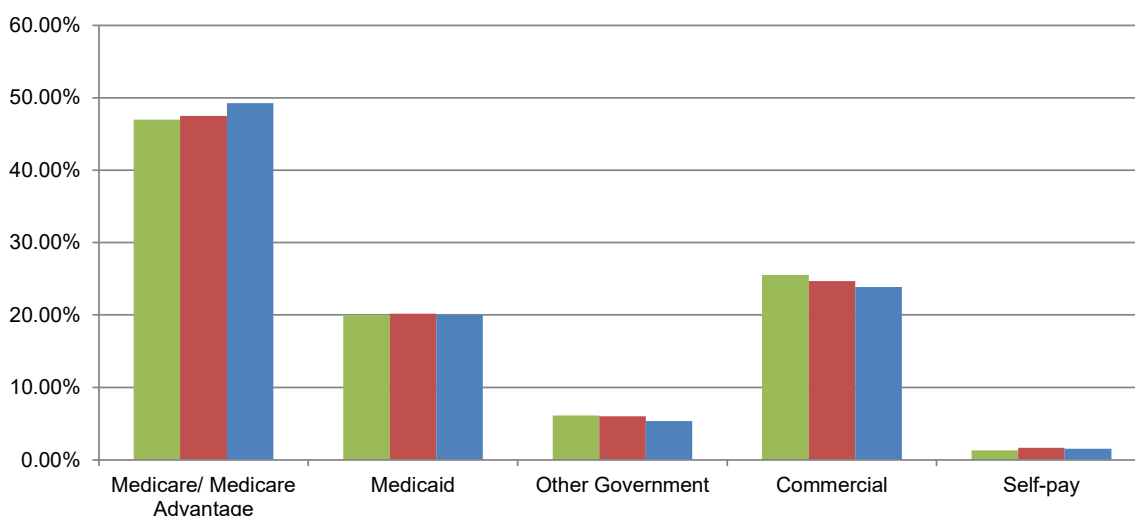
Net patient revenue consists of gross patient charges less contractual adjustments, charity care, and a provision for bad debt. Contractual adjustments represent the difference between gross patient charges at established rates and expected contracted payments from third-party payors with which the District 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

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, 2019 through 2021.

Payor Mix	Years Ended December 31,		
	2021	2020	2019
Medicare / Medicare Advantage	46.99%	47.46%	49.26%
Medicaid	20.03%	20.18%	20.01%
Other Government	6.12%	6.03%	5.35%
Commercial	25.55%	24.69%	23.86%
Self Pay	1.31%	1.64%	1.52%
	100.00%	100.00%	100.00%



Net patient revenue for Skagit Regional Health in 2021 increased by nearly \$66 million compared to 2020. While patient services continued to be impacted by the COVID-19 pandemic in 2021, the disruption to patient services was not as acutely felt as in 2020 when all non-urgent services were temporarily paused at the onset of the pandemic.

In response to escalating COVID-19 cases in the community, Skagit Regional Health voluntarily elected to impose a temporary suspension in elective surgical cases requiring admission to a patient bed which dampened patient service revenue during this time. The remainder of the year, Skagit benefited from an improved Deduction from Revenue (DFR) rate over the previous year due to an increase in the percentage of outpatient and professional revenue of total, a favorable 2016 CPE settlement, an increasing percentage of Skagit's overall payor mix towards commercial payors, and the continuation of the HRSA Covid-19 Uninsured Program.

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

Operating Revenue (in thousands) (continued)

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 million, SRH ended the year just slightly below \$1 million higher than the year prior in net patient revenue, primarily due to an improving contractual allowance rate. The contractual allowance rate was positively impacted by a variety of factors, including a favorable 2014/2015 CPE 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 percentage reimbursement per patient charge.

Other Operating Revenue

Other operating revenue decreased by \$458 (1.5%) from \$31,189 in 2020 to \$30,731 in 2021. In 2020 other operating revenue increased by \$2,645 (9.3%) over \$28,554 in 2019. Decreased revenues in the 340B contracted pharmacy program and unfavorable market value adjustments on restricted funds were partially offset by an increase in the shared savings revenue from CCN are the main drivers for this variance.

Operating Expenses (in thousands)

Total operating expenses in 2021 increased by \$61,387 (14.0%), from \$438,844 in 2020 to \$500,231 in 2021. Total operating expenses increased by \$14,391 (3.4%) in 2020, from \$424,453 in 2019.

Excluding providers, the District employed 1,961 full time equivalents (FTEs) for the year ending December 31, 2021, which was an increase of 66 FTEs from the 1,895 FTEs employed in the same period in 2020, and a two-year increase of 53 FTEs from the 1,908 FTEs employed in the same period in 2019. The observed FTE increases in 2021 were primarily due to staffing returning to standard operations after having been reduced in 2020 due to furloughs and reduced staffing plans that occurred as a result of the District's response to the COVID-19 pandemic and associated State mandates. These furloughs and reduced staffing plans were discontinued in 2021, as was the District's participation in the State of Washington's Shared Work program.

At year-end 2021, SRH employed 258 providers, comprised of 147 doctors, 34 residents, and 77 mid-level providers. This is an increase of 29 employed providers from year-end 2020, comprised of 18 doctors, 6 mid-level providers, and 5 residents. Growth was driven primarily by aggressive provider recruitment efforts in 2021 as well as modest growth in the Graduate Medical Education Program relative to 2020.

Salaries and benefits increased by \$35,514 (14.3%), from \$247,852 in 2020 to \$283,366 in 2021. 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 \$11,492 (4.9%) from \$236,360 in 2019. Wage growth due to Collective Bargaining Agreements and unfavorable labor market conditions were the primary driver of this increase.

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

Operating Expenses (in thousands) (continued)

Professional fees increased by \$2,578 (13.1%) from \$19,748 in 2020 to \$22,326 in 2021. Increased contract labor use and higher hourly wage rates across several areas including the District's laboratories, Health Information Management, surgical and emergency services and COVID-19 screeners accounted for the majority of this increase. In 2020, professional fees increased by \$668 (3.5%), from \$19,080 in 2019. Increased locums usage in the gastroenterology and obstetrics programs, along with outsourced labor to staff the COVID-19 screeners and the District's laboratories, were the main drivers of this increase.

The District's supply expense increased by \$12,326 (17.4%) from \$70,851 during 2020 to \$83,177 in 2021. The recovery in 2021 of surgical and endoscopy services volumes that were lost or deferred in 2020, paired with an increase in the number of providers led to an overall increase in patient volumes. Additionally, growth in high supply spend departments such as cardiac catheterization and robotic surgery also contributed to the increase in supply expenses. This rebound was not as evident in the oncology service line; however consistent growth in both high-costs drugs and patient volumes still contributed to the overall increase in supply expense for 2021 when compared to 2020.

The previous year showed a significantly smaller increase in supply expense of \$1,366 (2.0%) from \$69,485 for 2019, to \$70,851 for the same period in 2020. Even with the mid-year acquisition of a new Ear, Nose and Throat practice, the pause on elective cases in surgical services had the greatest impact on supply expense. However, the combination of increased high-costs drugs and steady patient volume in oncology led to an increase in pharmaceuticals expenses which contributed to an overall slight increase for 2020 when compared to 2019.

Purchased services and other expenses increased \$10,656 (13.9%), from \$76,663 in 2020 to \$87,319 in 2021. This increase was primarily related to an increase in usage of information technology purchased services and software license fees. Additional variances include increases in rents and leases, insurance premiums, and taxes.

Purchased services and other expense increased in 2020 by \$1,210 (1.6%), from \$75,453 in 2019. This variance was primarily attributed to the increase in COVID-19 lab testing. Additional variances included a decrease in usage of information technology purchased services and software license fees and increases in rents and leases, insurance premiums and taxes.

Depreciation expense of \$17,979 in 2021 was \$82 (0.5%) lower than the 2020 depreciation expense of \$18,061. In 2020, depreciation expense increased \$307 (1.7%) over the 2019 expense of \$17,754. The continued efforts on quality, safety-related capital needs and maintaining financial health for the strategic purposes of expanding the footprint of SRH have kept the capital spending, and therefore depreciation expenses, consistent with the prior year. Major capital purchases in 2021 include the expansion of the SPD department in Cascade Valley Hospital, Lab Chemistry Analyzers along with specific Orthopedic large and medium bone power.

Interest and amortization expense increased by \$395 (7.0%) to \$6,064 in 2021, from \$5,669 in 2020. In 2020, interest and amortization expense decreased by \$652 (10.3%), from \$6,321 in 2018. Interest rate savings related to the refinancing of the 2010 Hospital Revenue Bonds, which closed in December of 2019, was the main driver for this increase.

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

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

Net nonoperating income and other changes in net position increase by \$10,252 from \$27,411 in 2020 to \$37,663 in 2021 and increased in 2020 by \$16,108 from \$25,103 in 2019. The \$10,252 increase in 2021 was primarily driven by a \$16,691 decrease in CARES Act funding and lower investment income, and offset by a \$28.4 million gain on termination of participation in the Public Employees Benefits Board (PEBB) Program for post-employment benefits. The District terminated its participation in PEBB on January 1, 2021.

Gain on transfers of assets relates to the affiliation agreement with PHD 3 decreased by \$32 in 2021 to \$1,237 from \$1,269 in 2020 and \$2,011 in 2019. Additional information about this transfer can be found in the "Affiliation Agreement with Snohomish County PHD No. 3" section below.

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

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):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current assets			
Cash and short-term investments	\$ 37,972	\$ 104,157	\$ 49,669
Accounts receivable, net	55,371	51,444	57,800
Other current assets	<u>15,861</u>	<u>14,517</u>	<u>15,184</u>
Total current assets	109,204	170,118	122,653
Investments	36,384	-	-
Assets whose use is limited, net of current portion	136,478	137,213	135,935
Capital assets, net	133,705	140,806	149,780
Investments in joint ventures	<u>13,362</u>	<u>13,572</u>	<u>13,031</u>
Total assets	<u>429,133</u>	<u>461,709</u>	<u>421,399</u>
Deferred outflows of resources	<u>5,194</u>	<u>14,063</u>	<u>10,383</u>
Total assets and deferred outflows of resources	<u>\$ 434,327</u>	<u>\$ 475,772</u>	<u>\$ 431,782</u>
Current liabilities	\$ 66,917	\$ 99,127	\$ 70,596
Long-term debt, net of current portion	140,244	150,445	160,115
OPEB liability	5,371	30,731	22,960
Estimated professional liability	<u>6,783</u>	<u>6,421</u>	<u>5,213</u>
Total liabilities	<u>219,315</u>	<u>286,724</u>	<u>258,884</u>
Deferred inflows of resources	<u>34</u>	<u>5,411</u>	<u>6,029</u>
Net position			
Net investment in capital assets	17,642	17,197	17,407
Restricted for debt service	10,725	10,663	13,075
Unrestricted	<u>186,611</u>	<u>155,777</u>	<u>136,387</u>
Total net position	<u>214,978</u>	<u>183,637</u>	<u>166,869</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 434,327</u>	<u>\$ 475,772</u>	<u>\$ 431,782</u>

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

Statements of Net Position (in thousands) (continued)

Assets and Deferred Outflows of Resources

Total current assets of \$109,205 at December 31, 2021, were \$60,913 lower than at year-end 2020. This decrease is comprised of a \$66,185 decrease in cash and short-term investments, an increase of \$3,927 in net accounts receivable and an increase of \$1,344 in other current assets. The decrease in cash and current assets in 2021 was related to the repayment of the federal liquidity support and a change in investment portfolio allocation to long-term investments.

Total current assets of \$170,118 at December 31, 2020, were \$47,465 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 a decrease of \$667 in other current assets. The increase in cash and current 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.

Assets whose use is limited decreased from \$137,213 in 2020 to \$136,478 in 2021, a decrease of \$735, after increasing by \$1,278 from \$135,935 in 2019.

Net capital assets decreased in 2021 by \$7,101, from \$140,806 to \$133,705. This decrease is comprised of \$10,877 of new capital assets, offset by \$5,104 in retirements and a \$12,874 increase in accumulated depreciation. 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 \$9,305 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.

Investments in joint ventures decreased from \$13,572 in 2020 to \$13,362 in 2021, a decrease of \$210. Distributions from joint ventures accounted for the change in 2021. Investments in joint ventures increased from \$13,031 in 2019 to \$13,572 in 2020, an increase of \$541.

Deferred outflows of resources increased from \$10,383 in 2019 to \$14,063 in 2020 and decreased to \$5,194 in 2021. The decrease in 2021 related to SRH's exit from the state's PEBB program of \$7,706 and to a \$1,163 decrease in deferred losses on refundings.

Public Hospital District No. 1 of Skagit County, Washington

Management's Discussion and Analysis

Statements of Net Position (in thousands) (continued)

Liabilities and Deferred Inflows of Resources

Current liabilities decreased \$32,210 from \$99,127 in 2020 to \$66,917 in 2021. This decrease is comprised of a decrease of \$249 in accrued salaries, wages and employee benefits, a decrease of \$35,248 in Medicare Advance Payment Program, \$1,287 increase in payments due to estimated third-party payor settlements, a decrease of \$64 in accrued interest, an increase of \$1,474 in accounts payable and an increase in the current portion of long-term debt of \$589. Current liabilities increased \$28,531 from \$70,596 in 2019 to \$99,127 in 2020, primarily related to an increase in payments due to third-party payors.

Long-term debt, net of current portion, decreased by \$10,201 in 2021 to \$140,244 from \$150,445 in 2020. In 2020, long-term debt, net of current portion decreased by \$9,670 from \$160,115 in 2019. The full refinancing of the 2013 bonds account for the decrease in 2021 and normal scheduled principal payments account for the decrease the account for 2020.

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 decreased \$25,360 in 2021 from \$30,731 in 2020 to \$5,371 in 2021. Further detail of the District's OPEB liability can be found in Note 10 to the financial statements.

Professional malpractice liability reserve increased by \$362 in 2021, from \$6,421 in 2020 to \$6,783. This increase is based on an actuarial estimate of the professional malpractice liability, based on historic claims and changes in volume. In 2020, Professional malpractice liability reserve increased by \$1,208 from \$5,213 in 2019 to \$6,421.

Affiliation Agreement with Snohomish County PHD 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 (continued)

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

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 (continued)

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

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 (continued)

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,	
	2021	2020
CURRENT ASSETS		
Cash	\$ 23,967,923	\$ 4,176,433
Short-term investments	14,004,164	99,980,841
Patient accounts receivable, less allowance for uncollectible accounts of \$6,344,336 and \$12,460,367	51,750,646	45,287,556
Other receivables	3,620,020	6,156,532
Assets limited as to use, required for current liabilities	1,517,480	1,143,397
Supplies inventory	7,794,301	8,248,180
Prepaid expenses and other assets	6,541,821	4,804,834
Interest receivable	8,416	320,052
Total current assets	<u>109,204,771</u>	<u>170,117,825</u>
INVESTMENTS	<u>36,383,565</u>	<u>-</u>
ASSETS LIMITED AS TO USE		
Board-designated for capital improvements	110,802,541	110,785,315
Board-designated for professional liability	1,646,655	1,655,843
Restricted for CVH project funds A & B	14,821,187	15,252,330
Restricted bond reserve funds held by trustee	9,207,660	9,519,908
Restricted for bond redemption fund	1,517,480	1,143,397
	<u>137,995,523</u>	<u>138,356,793</u>
Less amounts required for current liabilities	<u>(1,517,480)</u>	<u>(1,143,397)</u>
	<u>136,478,043</u>	<u>137,213,396</u>
CAPITAL ASSETS		
Land	11,712,330	11,712,330
Construction in progress	750,333	852,394
Depreciable capital assets, net of accumulated depreciation	121,242,261	128,241,551
	<u>133,704,924</u>	<u>140,806,275</u>
INVESTMENTS IN JOINT VENTURES	<u>13,361,605</u>	<u>13,572,092</u>
Total assets	<u>429,132,908</u>	<u>461,709,588</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred OPEB outflows	-	7,706,233
Deferred losses on refundings	5,193,818	6,356,392
Total deferred outflows of resources	<u>5,193,818</u>	<u>14,062,625</u>
Total assets and deferred outflows of resources	<u>\$ 434,326,726</u>	<u>\$ 475,772,213</u>

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	December 31,	
	2021	2020
CURRENT LIABILITIES		
Accounts payable	\$ 17,694,587	\$ 16,220,996
Accrued salaries, wages, and employee benefits	28,899,995	29,149,588
Estimated third-party payor settlements	10,370,116	9,082,701
Advances under Medicare Advance Payment Program	-	35,247,911
Accrued interest payable	419,040	483,287
Current portion of long-term debt	9,533,008	8,943,549
Total current liabilities	66,916,746	99,128,032
LONG-TERM DEBT, net of current portion	140,243,792	150,444,671
OPEB LIABILITY	5,371,600	30,730,533
ESTIMATED PROFESSIONAL LIABILITY	6,783,026	6,420,712
Total liabilities	219,315,164	286,723,948
DEFERRED INFLOWS OF RESOURCES		
Deferred OPEB inflows	-	5,411,301
Deferred gain on refunding	33,791	-
Total deferred inflows of resources	33,791	5,411,301
NET POSITION		
Net investment in capital assets	17,641,924	17,196,312
Restricted for debt service	10,725,140	10,663,305
Unrestricted	186,610,707	155,777,347
Total net position	214,977,771	183,636,964
Total liabilities, deferred inflows of resources, and net position	\$ 434,326,726	\$ 475,772,213

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

	Years Ended December 31,	
	2021	2020
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$12,559,313 and \$16,489,448)	\$ 463,177,578	\$ 397,011,718
Other operating revenues	30,731,542	31,189,046
Total operating revenues	<u>493,909,120</u>	<u>428,200,764</u>
OPERATING EXPENSES		
Salaries and wages	227,549,268	197,389,255
Employee benefits	55,817,045	50,462,745
Professional fees	22,326,682	19,748,420
Supplies	83,177,050	70,851,022
Purchased services	57,452,618	51,101,038
Other	29,866,063	25,561,587
Depreciation and amortization	17,978,624	18,061,013
Interest and amortization	6,064,048	5,668,992
Total operating expenses	<u>500,231,398</u>	<u>438,844,072</u>
Operating loss	<u>(6,322,278)</u>	<u>(10,643,308)</u>
NONOPERATING INCOME, net		
CARES Act Provider Relief Fund and other assistance	4,827,957	21,518,665
Investment income	(31,571)	1,965,001
Gain on termination of participation in PEBB	28,435,601	-
Revenues from tax levies for general obligation bonds	4,772,632	4,260,185
Interest and amortization expense	(1,746,656)	(1,581,565)
Other expense	(19,649)	(20,324)
Nonoperating income, net	<u>36,238,314</u>	<u>26,141,962</u>
Excess of revenues over expenses before capital contributions and transfers	29,916,036	15,498,654
CAPITAL CONTRIBUTIONS	188,065	-
GAIN ON TRANSFER OF ASSETS	<u>1,236,706</u>	<u>1,269,128</u>
INCREASE IN NET POSITION	<u>31,340,807</u>	<u>16,767,782</u>
NET POSITION, beginning of year	<u>183,636,964</u>	<u>166,869,182</u>
NET POSITION, end of year	<u>\$ 214,977,771</u>	<u>\$ 183,636,964</u>

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

Increase (Decrease) in Cash and Cash Equivalents

	Years Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from and on behalf of patients	\$ 458,001,903	\$ 395,111,600
Cash paid to suppliers	(192,269,616)	(172,055,662)
Cash paid to employees	(278,244,306)	(239,995,595)
Cash received from Medicare Advance Payment Program	-	35,247,911
Cash paid to Medicare Advance Payment Program	(35,247,911)	-
Other cash receipts	31,351,658	29,863,574
Net cash from operating activities	(16,408,272)	48,171,828
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from CARES Act Provider Relief Fund and other assistance	4,827,957	21,518,665
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(10,622,004)	(9,087,027)
Principal payments on long-term debt	(8,974,786)	(10,244,992)
Interest paid on long-term debt	(7,112,384)	(7,206,191)
Proceeds from issuance of long-term debt	18,755,000	-
Cash paid for financing costs	(437,502)	-
Escrow payment for refunding of 2013A revenue and refunding bonds	(18,775,603)	-
Cash received from tax revenues for general obligation bonds	4,739,205	4,254,221
Cash received from transfer of assets	1,236,706	1,269,128
Cash received from capital contributions	188,065	-
Other	(19,649)	(20,324)
Net cash from capital and related financing activities	(21,022,952)	(21,035,185)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash distributions from joint ventures	2,500,191	1,927,762
Net change in investments and assets limited as to use	48,652,095	(51,333,895)
Investment income	575,096	3,156,350
Net cash from investing activities	51,727,382	(46,249,783)
NET CHANGE IN CASH AND CASH EQUIVALENTS	19,124,115	2,405,525
CASH AND CASH EQUIVALENTS, beginning of year	6,427,589	4,022,064
CASH AND CASH EQUIVALENTS, end of year	\$ 25,551,704	\$ 6,427,589
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash	\$ 23,967,923	\$ 4,176,433
Cash and cash equivalents in assets limited as to use	1,583,781	2,251,156
	\$ 25,551,704	\$ 6,427,589

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,	
	2021	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (6,322,278)	\$ (10,643,308)
Adjustments to reconcile operating income to net cash from operating activities		
Net change in OPEB liability	5,371,600	2,745,203
Investment income considered an investing activity	373,308	(333,240)
Interest expense considered a capital financing activity	6,064,048	5,668,992
Depreciation and amortization	17,978,624	18,061,013
Income recognized from joint ventures	(2,289,704)	(2,468,475)
Changes in operating assets and liabilities		
Accounts receivable, net	(6,463,090)	4,879,502
Other receivables	2,536,512	1,476,243
Supplies inventory	453,879	(2,528,647)
Prepaid expenses	(1,736,987)	316,449
Accounts payable	1,473,591	(3,789,348)
Accrued salaries, wages, and employee benefits	(249,593)	5,111,202
Estimated third-party payor settlements	1,287,415	(6,779,620)
Reserve for professional liability costs	362,314	1,207,951
Advances under Medicare Advance Payment Program	(35,247,911)	35,247,911
Net cash from operating activities	<u>\$ (16,408,272)</u>	<u>\$ 48,171,828</u>
DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Capital assets financed with capital lease obligation	<u>\$ 255,269</u>	<u>\$ -</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 \$1,236,706 and \$1,269,128 in 2021 and 2020, 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 \$4,328,000 and \$4,078,000 at December 31, 2021 and 2020, 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. 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)

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 2021 and 2020 measured by the District's standard charges was \$13,374,453 and \$11,888,232, respectively.

Reclassifications – The District reclassified certain amounts relating to its prior period results to conform to its current period presentation within the financial statements. These reclassifications have not changed the results of operations of prior periods.

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 15, 2022, 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 \$183,099,000 and \$161,869,000 for 2021 and 2020, respectively. Unsecured net patient accounts receivable due from Medicare at December 31, 2021 and 2020, were approximately \$17,663,000 and \$15,649,000, 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 \$63,586,000 and \$54,821,000 for 2021 and 2020, respectively. Unsecured net patient accounts receivable due from Medicaid at December 31, 2021 and 2020, were approximately \$4,548,000 and \$5,736,000, respectively.

The District’s estimates of final settlements to or from Medicare and Medicaid through 2021 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Gross patient service revenue	\$ 1,635,464,882	\$ 1,443,483,002
Less adjustments to gross patient service revenue		
Contractual adjustments	1,146,353,538	1,018,093,604
Provision for bad debts	12,559,313	16,489,448
Charity care	<u>13,374,453</u>	<u>11,888,232</u>
Total adjustments to gross patient service charges	<u>1,172,287,304</u>	<u>1,046,471,284</u>
Net patient service revenue	<u>\$ 463,177,578</u>	<u>\$ 397,011,718</u>

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, repurchase agreements, and bonds.

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, 2021 and 2020, all deposits and investments of the District are categorized as Category 1 and consist of the following:

	2021	2020
Unrestricted cash	\$ 23,967,923	\$ 4,176,433
Unrestricted investments and cash equivalents:		
Commercial paper	10,106,510	-
Investment in State Treasurer's Investment Pool	-	88,756,091
U.S. Treasury securities	31,825,139	-
U.S. government agency obligations	1,720,467	11,224,750
Domestic corporate bonds	2,060,553	-
Foreign bonds	4,085,190	-
Other assets	589,871	-
	50,387,729	99,980,841
Assets limited as to use:		
Cash and cash equivalents	1,583,781	2,251,156
Commercial paper	24,876,440	-
Investment in State Treasurer's Investment Pool	-	59,185,981
U.S. Treasury securities	78,335,266	-
U.S. government agency obligations	17,251,095	76,919,656
Domestic corporate bonds	5,071,901	-
Foreign bonds	10,055,398	-
Other assets	821,641	-
	137,995,523	138,356,793
Total deposits and investments	\$ 212,351,175	\$ 242,514,067

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, 2021, and excluding unrestricted cash and cash in assets limited as to use balances of \$26,141,575, is as follows:

Investment Type	Quoted prices in Active Markets for Identical assets (Level 1)	Inputs other than quoted prices that are directly or indirectly observable (Level 2)	Total	Percentage of Totals
Commercial paper	\$ -	\$ 34,982,950	\$ 34,982,950	19%
U.S. Treasury securities	110,160,405	-	110,160,405	59%
U.S. government agency obligations	-	18,971,562	18,971,562	10%
Domestic corporate bonds	-	7,132,454	7,132,454	4%
Foreign bonds	-	14,140,588	14,140,588	8%
Other	-	821,641	821,641	0%
	\$ 110,160,405	\$ 76,049,195	\$ 186,209,600	100%

The composition of investments, reported at fair value by investment type at December 31, 2020, and unrestricted cash and cash and LGIP in 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)	Inputs other than quoted prices that are directly or indirectly observable (Level 2)	Total	Percentage of Totals
U.S. government agency obligations	\$ -	\$ 88,144,406	\$ 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 District's deposits and investments had the following maturities as of December 31, 2021:

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1–5
Commercial paper	\$ 34,982,950	\$ 34,982,950	\$ -
U.S. Treasury securities	110,160,405	13,491,445	96,668,960
U.S. government agency obligations	18,971,562	1,700,020	17,271,542
Domestic corporate bonds	7,132,454	-	7,132,454
Foreign bonds	14,140,588	-	14,140,588
Other assets	821,641	-	821,641
 Total investments	 <u>\$ 186,209,600</u>	 <u>\$ 50,174,415</u>	 <u>\$ 136,035,185</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. The investments held are all investment grade securities that are rated A- and higher by Standard and Poor's. Obligations of the U.S. government and obligations explicitly guaranteed by the U.S. government 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 \$373,308 and \$333,240 for the years ended December 31, 2021 and 2020, respectively.

Note 5 – Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2021 and 2020, were as follows:

	Beginning Balance January 1, 2021	Additions	Retirements	Account Transfers	Ending Balance December 31, 2021
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 11,712,330	\$ -	\$ -	\$ -	\$ 11,712,330
Construction in progress	852,394	1,811,383	-	(1,913,444)	750,333
Total nondepreciable capital assets	12,564,724	1,811,383	-	(1,913,444)	12,462,663
DEPRECIABLE CAPITAL ASSETS					
Land improvements	7,354,239	-	-	-	7,354,239
Buildings and leasehold improvements	145,824,029	722,052	-	1,888,686	148,434,767
Fixed equipment	23,615,735	50,799	(31,162)	-	23,635,372
Movable equipment	139,497,269	8,293,039	(5,073,217)	24,758	142,741,849
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION					
Land improvements	(4,244,009)	(265,016)	-	-	(4,509,025)
Buildings and leasehold improvements	(78,063,696)	(5,724,269)	-	(100,337)	(83,888,302)
Fixed equipment	(19,712,104)	(561,088)	31,162	-	(20,242,030)
Movable equipment	(86,029,912)	(11,428,251)	5,073,217	100,337	(92,284,609)
Depreciable capital assets, net	128,241,551	(8,912,734)	-	1,913,444	121,242,261
	<u>\$ 140,806,275</u>	<u>\$ (7,101,351)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 133,704,924</u>

Public Hospital District No. 1 of Skagit County, Washington
Notes to Financial Statements

Note 5 – Capital Assets (continued)

	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	<u>12,393,603</u>	<u>988,606</u>	<u>-</u>	<u>(817,485)</u>	<u>12,564,724</u>
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	<u>137,386,658</u>	<u>(9,962,592)</u>	<u>-</u>	<u>817,485</u>	<u>128,241,551</u>
	<u>\$ 149,780,261</u>	<u>\$ (8,973,986)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 140,806,275</u>

The District has included equipment under capital lease obligations with a cost of \$3,238,508 and \$2,983,239 in capital assets at December 31, 2021 and 2020, respectively. Amortization expense of \$633,794 and \$632,122 related to this equipment was recorded in depreciation and amortization expense for the years ended 2021 and 2020, respectively. Accumulated amortization for equipment under capital lease was \$2,165,437 and \$1,531,643 at December 31, 2021 and 2020, respectively.

Depreciation and amortization expense of operating assets for the years ended December 31, 2021 and 2020, was \$17,978,624 and \$18,061,013, 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, 2021. During the years ended December 31, 2021 and 2020, the District recognized operating income of \$2,576,494 and \$1,169,644, respectively, for its share of the net income realized by CIA. The District's recorded investment in CIA was \$1,149,904 and \$726,657 at December 31, 2021 and 2020, respectively.

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, 2021. During the years ended December 31, 2021 and 2020, the District recognized operating income of \$10,010 and operating loss of \$17,466, respectively, for its share of the net income realized by SDI. The District's recorded investment in SDI was \$1,637,254 and \$1,718,941 at December 31, 2021 and 2020, 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, 2021. During the years ended December 31, 2021 and 2020, the District recognized operating income of \$350,991 and \$573,518, respectively, for its share of the net income realized by Hospice. The District's recorded investment in Hospice was \$1,658,536 and \$1,857,330 at December 31, 2021 and 2020, 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, 2021. During the years ended December 31, 2021 and 2020, the District recognized operating income of \$382,126 and \$326,520, respectively, for its share of the net income realized by SVREP. The District's recorded investment in SVREP was \$4,560,204 and \$4,660,557 at December 31, 2021 and 2020, 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, 2021. During the years ended December 31, 2021 and 2020, the District recognized operating income of \$794,200 and \$400,997, respectively, for its share of the net income realized by SPMC. The District's recorded investment in SPMC was \$4,355,707 and \$4,608,607 at December 31, 2021 and 2020, respectively.

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

	2021	2020
Current assets	\$ 9,232,991	\$ 9,476,516
Noncurrent assets, net	25,855,943	27,544,265
	\$ 35,088,934	\$ 37,020,781
Current liabilities	\$ 2,688,738	\$ 3,559,092
Long-term liabilities	10,675,468	11,252,633
Equity	21,724,728	22,209,056
	\$ 35,088,934	\$ 37,020,781
Revenue	\$ 28,847,903	\$ 31,180,377
Expenses	23,427,417	25,148,083
Net income	\$ 5,420,486	\$ 6,032,294

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, 2021 and 2020, for the District consisted of the following:

	<u>2021</u>	<u>2020</u>
Direct placement revenue refunding bond, 2021, 2.10% to 2.57%, due annually on December 1, in amounts from \$2,060,000 in 2022 to \$5,035,000 in 2037, maturing in 2037.	\$ 18,755,000	\$ -
Direct placement revenue refunding bond, 2019, 3.08%, due annually on December 1, in amounts from \$830,000 in 2022 to \$7,105,000 in 2035, maturing in 2035.	31,330,000	32,130,000
Direct placement unlimited tax general obligation refunding bond, 2019, 1.85% to 2.27%, due annually on December 1, in amounts from \$310,000 in 2022 to \$6,130,000 in 2028, maturing in 2028.	28,445,000	28,745,000
Revenue and refunding bonds, 2016, 4.00% to 5.00%, due serially on December 1, in amounts from \$1,840,000 in 2022 to \$5,875,000 in 2032, maturing in 2037, net of unamortized premium of \$4,998,067 and \$5,313,734 in 2021 and 2020, respectively.	59,473,067	61,563,734
Unlimited tax general obligation refunding bonds, 2012, 5.00%, due serially on December 1, in amounts from \$3,795,000 in 2022 to \$4,155,000 in 2023, maturing in 2023, net of unamortized premium of \$2,214,696 and \$2,534,894 in 2021 and 2020, respectively.	10,164,696	13,939,893
Revenue and refunding bonds, 2013A series, 4.00% to 5.00%, due serially on December 1, net of unamortized premium of \$1,646,039 in 2020. Refunded in December 2021.	-	20,846,039
Note payable to individuals, due in monthly installments of \$7,800, including interest of 4.50%, maturing in 2024.	465,205	632,033
Capital lease obligations, stated at present value of future minimum lease payments.	<u>1,143,832</u>	<u>1,531,521</u>
	149,776,800	159,388,220
Less current portion	<u>(9,533,008)</u>	<u>(8,943,549)</u>
	<u>\$ 140,243,792</u>	<u>\$ 150,444,671</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 2021, the District issued the 2021 direct placement revenue refunding bond to carry out a taxable refunding of a portion of the 2013A revenue and refunding bonds. The refunding resulted in the recognition of an accounting gain of \$33,968, which will be deferred and amortized over the life of the 2013A bond, which was set to mature in 2037 and is classified as a deferred inflow of resources on the statement of net position. The refunding decreased the District's aggregate debt service payments by \$4,347,000 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 \$3,385,000. If certain conditions are met, on September 5, 2023, the taxable bond will convert to a tax-exempt bond with an interest rate of 2.10%. If conditions are not met, the taxable bond remains outstanding, with an interest rate of 2.57% until such time that the conversion occurs or until maturity thereof.

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 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 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, 2021 and 2020, are summarized below:

	Beginning Balance January 1, 2021	Additions	Reductions	Ending Balance December 31, 2021	Amounts Due Within One Year
LONG-TERM DEBT					
2021 Direct placement revenue refunding bond	\$ -	\$ 18,755,000	\$ -	\$ 18,755,000	\$ 2,060,000
2019 Direct placement revenue refunding bond	32,130,000	-	800,000	31,330,000	830,000
2019 Direct placement UTGO refunding bond	28,745,000	-	300,000	28,445,000	310,000
2012 UTGO refunding bonds	13,939,893	-	3,775,197	10,164,696	3,795,000
2013 Revenue and refunding bonds - series A	20,846,039	-	20,846,039	-	-
2016 Revenue and refunding bonds	61,563,734	-	2,090,667	59,473,067	1,840,000
Notes payable to individuals	632,033	-	166,828	465,205	222,183
Capital lease obligations	1,531,521	255,269	642,958	1,143,832	475,825
Total long-term debt	159,388,220	19,010,269	28,621,689	149,776,800	9,533,008
ESTIMATED PROFESSIONAL LIABILITY					
	6,420,712	362,314	-	6,783,026	-
Total noncurrent liabilities	\$ 165,808,932	\$ 19,372,583	\$ 28,621,689	\$ 156,559,826	\$ 9,533,008

	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

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
2022	\$ 5,805,952	\$ 2,973,034	\$ 8,778,986	\$ 3,200,000	\$ 2,072,583	\$ 5,272,583	\$ 527,056	\$ 42,675	\$ 569,731
2023	6,248,820	2,701,814	8,950,634	3,400,000	1,870,214	5,270,214	389,005	20,201	409,206
2024	4,210,433	2,409,834	6,620,267	5,960,000	1,731,801	7,691,801	154,967	6,116	161,083
2025	4,260,000	2,244,400	6,504,400	6,270,000	1,610,442	7,880,442	50,000	2,000	52,000
2026	4,425,000	2,074,000	6,499,000	6,585,000	1,483,028	8,068,028	22,804	500	23,304
2027–2031	25,430,000	7,065,750	32,495,750	17,705,000	5,644,589	23,349,589	-	-	-
2032–2036	8,605,000	1,755,750	10,360,750	30,375,000	3,357,886	33,732,886	-	-	-
2037	3,905,000	195,250	4,100,250	5,035,000	105,735	5,140,735	-	-	-
Total	62,890,205	\$ 21,419,832	\$ 84,310,037	\$ 78,530,000	\$ 17,876,278	\$ 96,406,278	\$ 1,143,832	\$ 71,492	\$ 1,215,324
Net unamortized premiums and discounts	7,212,763								
	<u>\$ 70,102,968</u>								

Annual debt service is calculated assuming conversion of the 2019 direct placement UTGO refunding bond and the 2021 direct placement revenue refunding bond to tax-exempt bonds.

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 \$10,156,000 and \$9,488,000 in 2021 and 2020, respectively. Contributions made by employees to the benefit plans totaled approximately \$12,951,000 and \$11,306,000 in 2021 and 2020, 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 2021 and 2020, 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 2021 and 2020, the tax levy for bond service was \$0.77 and \$0.73 per \$1,000 on a total assessed valuation of \$6,128,101,353 and \$5,765,812,508, for a total levy of \$4,713,997 and \$4,154,385, respectively. The District also receives revenue from timber taxes. Timber tax revenue in 2021 and 2020 was \$58,635 and \$105,800, 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

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 \$28.4 million gain on termination of participation in PEBB due to a \$30.7 million decrease in 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.

Plan description – Effective January 1, 2021 there is the early retirement medical benefit program. The District will pay the full premium for retirees with 20 or more years of service between the ages of 62 and 65. The fully insured plans offered are from Premera. Retiree's spouses may enroll until they are age 65 and have to pay the spouse portion of the premium. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Eligibility – Employees are eligible for retiree health benefits if they retire between ages 62 and 65 and have 20 or more years of service. Employees in “pay-in-lieu of benefits, <0.50 FTE, Per Diem and/or temporary” FTE status are not entitled to retirement benefits.

Benefits provided – The benefits provided by the District and valued in this report include premium reimbursement. Eligible employees receive full reimbursement for the retiree portion of medical premiums. There is no reimbursement for dental premiums or the dependent portion of medical premiums, nor spousal or dependent premiums. Medical premiums of retirees and spouses over the age of 65 are not reimbursed.

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’ premium, projected with the medical trend assumption.

Membership data – At December 31, 2021 and 2020, the following membership census was used:

	2021	2020
Membership Census		
Retirees	17	93
Actives	1,978	2,067
	1,995	2,160

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

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

Individuals covered by benefit terms – At December 31, 2021 and 2020, the following retirees and spouses were covered by the benefit terms:

	2021	2020
Retirees and Spouses Currently Receiving Benefits		
Members	17	93
Surv. Spouses	-	24
Spouses	2	4

Total OPEB liability

The District's total OPEB liability was \$5,371,600 and \$30,730,533 as of the reporting date of December 31, 2021 and 2020, respectively. The corresponding measurement date was December 31, 2020 and 2019, respectively, and the actuarial valuation date was July 1, 2020. 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, 2021, 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% and promotion and longevity increases ranging from 6% at 0 years of service to 0% at 21+ years of service

Even though the benefits are not based upon pay, salary assumptions are necessary for the actuarial cost method. These assumptions are for promotion and longevity and reflect the assumptions used in the 2020 actuarial valuation for Washington State Public Employees Retirement System (PERS).

Healthcare cost trend rates	Ranging from 8.90% beginning 7/1/2021 to 4.20% beginning 7/1/2087 and plus
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There is substantial uncertainty regarding the impact of the COVID-19 pandemic on projected plan costs. Therefore, for purposes of this valuation, no adjustments were made to these costs. The COVID-19 pandemic could have a material cost impact in future valuations.

Discount Rate (Liabilities)	2.12%
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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.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

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

Demographic assumptions regarding retirement, mortality, disability mortality, turnover, and marriage are based on assumptions used in the 2020 actuarial valuation for the Washington State retirement systems and modified for the District.

- The assumed rates of disability under PERS plan 2 from the 2020 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 PERS plan 2, with less than 30 years of service assumptions, from the 2020 actuarial valuation for Washington State retirement systems was used. The service requirements for these plans vary based on hire date and years of service. An assumption of 100% retirement at age 65 was used so that the attribution period under the actuarial cost method ends when the benefits end, as stated in A 4.383 of the implementation guide for GASB 75.
- For mortality, the assumptions from the 2020 actuarial valuation for Washington State retirement systems, adjusted for the District was used. For all healthy members, the PubG.H-2010 base mortality table with generational mortality adjustments using the long-term MP-2017 generational improvement scale was used.
- For other termination of employment, the assumptions by plan from the 2020 actuarial valuation for Washington State retirement systems were used, but no less than 2% per year.

The actuarial assumptions used for the December 31, 2021, reporting were based on a census date of July 1, 2020.

Changes in the total OPEB liability

Balance at December 31, 2019	\$ 22,960,006
Service cost	1,992,258
Interest	1,013,604
Effect of assumption changes or inputs	5,229,798
Benefit payments	(465,133)
Net Changes	7,770,527
Balance at December 31, 2020	30,730,533
Effect of assumption changes and changes of benefit terms	(25,358,933)
Net Changes	(25,358,933)
Balance at December 31, 2021	\$ 5,371,600

Changes of assumptions and other inputs reflect a change in the discount rate from 4.10% in 2019 to 2.74% in 2020 and 2.12% in 2021.

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 District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	<u>1% Decrease (1.12%)</u>	<u>Discount Rate (2.12%)</u>	<u>1% Increase (3.12%)</u>
2021			
Total OPEB liability	<u>\$ 5,817,257</u>	<u>\$ 5,371,600</u>	<u>\$ 4,950,669</u>
	<u>1% Decrease (1.74%)</u>	<u>Discount Rate (2.74%)</u>	<u>1% Increase (3.74%)</u>
2020			
Total OPEB liability	<u>\$ 37,932,707</u>	<u>\$ 30,730,533</u>	<u>\$ 25,197,489</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 one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
2021			
Total OPEB liability	<u>\$ 4,684,885</u>	<u>\$ 5,371,600</u>	<u>\$ 6,209,782</u>
2020			
Total OPEB liability	<u>\$ 23,999,777</u>	<u>\$ 30,730,533</u>	<u>\$ 40,075,384</u>

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, 2021 and 2020, the District recognized OPEB expense of \$5,371,600 and \$3,210,336, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2020		
Differences between expected and actual experience	\$ 1,784,424	\$ -
Changes of assumptions or other inputs	<u>5,921,809</u>	<u>5,411,301</u>
	<u>\$ 7,706,233</u>	<u>\$ 5,411,301</u>

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 \$6,783,000 and \$6,421,000 at December 31, 2021 and 2020, respectively.

Public Hospital District No. 1 of Skagit County, Washington

Notes to Financial Statements

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 \$21,778,000 and \$14,336,000 in expenses related to these services for the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021 and 2020, the District had a total of approximately \$1,611,000 and \$1,944,000, respectively, in accounts receivable from joint ventures.

The joint ventures provide various services to the District (Note 6). The District paid approximately \$15,562,000 and \$15,172,000 to the joint ventures for providing these services for the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021 and 2020, the District had a total of approximately \$1,014,000 and \$962,000, 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, 2021 and 2020, was as follows:

	2021	2020
Medicare	34%	35%
Medicaid	10%	13%
Group Health	6%	9%
Patient and self-pay	0%	0%
Commercial	35%	30%
Other third-party payors	15%	13%
	<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, 2021:

2022	\$	8,450,284
2023		6,717,915
2024		6,853,256
2025		6,615,777
2026		6,391,479
2027–2031		<u>26,831,062</u>
	\$	<u>61,859,774</u>

Rent expense on operating leases for 2021 and 2020 was \$9,912,000 and \$9,524,000, 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, 2021, the District had a total of approximately 3,200 employees. Of this total, 2,307 employees are covered by collective bargaining agreements. There are 1,657 employees under agreements that expires during 2022. 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

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, 2021 and 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 gave hospitals one year before Medicare can claim payments to repay the advance payments. Additionally, the measure lowered the interest rate on outstanding payments after the 29-month period from 10.25% to 4%. The District repaid the remaining advance due in September 2021.

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. This grant is 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). To date the District has received approximately \$1.2 million through this funding source. Of this \$1.2 million, the District recognized \$270,000 and \$972,000 in 2021 and 2020, respectively, as non-operating revenue on the Statements of Revenues, Expenses, and Changes in Net Position.

During the years ended December 31, 2021 and 2020, the District received funds under the CARES Act Provider Relief Fund, administered by the U.S. Department of Health & Human Services (HHS), of \$4,352,645 and \$19,562,059, respectively. The District has recognized the amounts received as nonoperating revenue on the Statements of Revenues, Expenses, and Changes in Net Position. 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.

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*

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 Public Hospital District No. 1 of Skagit County, Washington as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Public Hospital District No. 1 of Skagit County, Washington's basic financial statements, and have issued our report thereon dated April 15, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Public Hospital District No. 1 of Skagit County, Washington'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 Public Hospital District No. 1 of Skagit County, Washington's internal control. Accordingly, we do not express an opinion on the effectiveness of Public Hospital District No. 1 of Skagit County, Washington'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 were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Public Hospital District No. 1 of Skagit County, Washington'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 15, 2022

Required Supplementary Information

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

	2021	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	(25,358,933)	-	-	-	-
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	(25,358,933)	7,770,527	(504,982)	4,473,207	1,946,188
Total OPEB liability - beginning	30,730,533	22,960,006	23,464,988	18,991,781	17,045,593
Total OPEB liability - ending	<u>\$ 5,371,600</u>	<u>\$ 30,730,533</u>	<u>\$ 22,960,006</u>	<u>\$ 23,464,988</u>	<u>\$ 18,991,781</u>
Covered-employee payroll	<u>\$ 155,906,296</u>	<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>3.45%</u>	<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 – The District left Public Employee Benefits Board (PEBB) Program on December 31, 2020. Effective January 1, 2021, there is the early retirement medical benefit program. The District will pay the full premium for retirees with 20 or more years of service between the ages of 62 and 65. The fully insured plans offered are from Premera. Retiree's spouses may enroll until they are age 65 and have to pay the spouse portion of the premium.

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.

