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April 28, 2020

Board of Commissioners  
Skagit County Public Hospital District No. 2  
d/b/a Island Hospital  
Anacortes, Washington

To the Board of Commissioners:

We have audited the financial statements of Skagit County Public Hospital District No. 2 d/b/a Island Hospital (the "Hospital") for the years ended December 31, 2019 and 2018, and have issued our report thereon dated April 28, 2020. Professional standards require that we provide you with the following information related to our audit:

**Our Responsibility Under Auditing Standards Generally Accepted in the United States and *Government Auditing Standards***

As stated in our engagement letter dated January 21, 2020, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States (GAAP). Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Hospital. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we also performed tests of the Hospital's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Required Supplementary Information Accompanying Audited Financial Statements**

We applied certain limited procedures to the management's discussion and analysis and the Schedule of Changes in Total Other Post-Employment Benefit Liability and Related Ratios, which is required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

### **Other Information in Documents Containing Audited Financial Statements**

The auditor's responsibility for other information in documents containing audited financial statements does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document. Our responsibility is to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements.

We are not aware of any documents or other information containing audited financial statements and, furthermore, management has not requested us to devote attention to any documents containing audited financial statements.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to your representative, Elise Cutter, CFO, in our conversations about planning matters in addition to our engagement letter dated January 21, 2020, accepted by Elise Cutter, CFO.

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Hospital are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended December 31, 2019.

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

The most sensitive estimates affecting the financial statements were:

- The adequacy of the allowance for accounts receivable is one of the most subjective estimates affecting the financial statements. The allowance for accounts receivable is maintained at a level which management believes is adequate to provide for possible write-offs. Management periodically evaluates the adequacy of the allowance using the Hospital's past bad debt experience, known and inherent risks in accounts receivable, current economic conditions, and other relevant factors. We evaluated the key factors and assumptions used to develop the allowance for accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

### **Qualitative Aspects of Accounting Practices (Continued)**

- The contractual allowances on accounts receivable is also an estimate that is maintained at levels management believes are adequate to provide for the contractual discounts on accounts receivable from third-party payers. Management periodically evaluates the adequacy of the contractual adjustments using the Hospital's past experience with the third-party payers, current third-party payer contracts, and other relevant factors. We evaluated the key factors and assumptions used to develop the contractual adjustments on accounts receivable after audit adjustments in determining that it is reasonable in relation to the financial statements taken as a whole.
- The estimated final settlements on the Medicare and Medicaid cost reports are based on audits conducted by the fiscal intermediary. Management periodically evaluates the adequacy of the balance using the Hospital's experience, known and inherent risks in the preparation of these cost reports, and risks associated with doing business in the health care industry. We reviewed the estimated settlements recorded for each open year to determine the reasonableness of the estimates based on the results of previous audits by the fiscal intermediary.
- The adequacy of the estimated liability for OPEB is subjective and contingent upon the assumptions used in the actuarial study and roll forward of that study to the reporting date. We evaluated key factors and assumptions used to develop the liability for OPEB, and the related deferred outflows and inflows, in determining that they are reasonable in relation to the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are as follows:

- The disclosure of reimbursement arrangements with third-party payors in Note 5 to the financial statements.
- The disclosure of contingencies in Note 14 to the financial statements.
- The disclosure of the liability for OPEB in Note 13 to the financial statements.
- The disclosure for subsequent events in Note 18 to the financial statements.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.



# ISLAND HOSPITAL

1211 24th Street • Anacortes, WA 98221 • 360.299.1300 • [www.islandhospital.org](http://www.islandhospital.org)

April 28, 2020

Wipfli LLP  
201 W. North River Drive, Suite 400  
Spokane, WA 99201

This representation letter is provided in connection with your audits of the financial statements of Skagit County Public Hospital District No. 2 d/b/a Island Hospital, which comprise the statements of net position as of December 31, 2019 and 2018, and the related statements of revenue, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief as of date of this letter, the following representations made to you during your audits.

## Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 21, 2020, including our responsibility for the preparation and fair presentation of the financial statements in accordance with GAAP.
2. The financial statements referred to above are fairly presented in conformity with GAAP.
3. We acknowledge our responsibility 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

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*The Island Hospital Promise ~ 'Your best healthcare experience begins at Island Hospital.  
We always place your emotional and medical needs first and foremost.'*

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of GAAP.
7. All events subsequent to the date of the financial statements and for which GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. We agree with the adjusting journal entries proposed by you and which are given effect to in the financial statements.
9. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A schedule of the uncorrected misstatements is attached, if any.
10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with GAAP.
11. Material concentrations have been properly disclosed in accordance with GAAP.
12. Guarantees, whether written or oral, under which the Organization is contingently liable, have been properly recorded or disclosed in accordance with GAAP.
13. We acknowledge our responsibility as it relates to the following nonattest/nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services:
  - a. Miscellaneous accounting and operational consulting

#### Information Provided

14. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the Organization from who you determined it necessary to obtain audit evidence.
  - d. Minutes of the meeting of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.

15. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
16. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
17. We have no knowledge of any fraud or suspected fraud affecting the Organization involving:
  - a. Management.
  - b. Employees who have significant roles in internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
18. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization's financial statements communicated by employees, former employees, grantors, regulators, or others.
19. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws, regulations, and provisions of contracts and grant agreements applicable to us whose effects should be considered when preparing financial statements. Specifically:
  - a. There are no violations or possible violations of laws or regulations, such as those related to the Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Medicare and Medicaid Anti-Kickback Statute, Limitations on Certain Physician Referrals (the Stark law), and the False Claims Act, in any jurisdiction, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency other than those disclosed or accrued in the financial statements.
  - b. Billings to third-party payors comply in all material respects with applicable coding guidelines (for example, ICD-10-CM and CPT-4) and laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse), and billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.
  - c. There have been no communications (oral or written) from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction (including those related to the Medicare and Medicaid antifraud and abuse statutes), deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.



20. We have disclosed to you all known actual or possible litigation, asserted and unasserted claims, and assessments whose effects should be considered when preparing the financial statements. Adequate and reasonable provision has been made for losses related to asserted and unasserted malpractice, health insurance, worker's compensation, and any other claims or assessments.
21. We have disclosed to you the identity of the Organization's related parties and all the related party relationships and transactions of which we are aware.
22. The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any material asset been pledged, except as disclosed in the notes to the financial statements.
23. Receivables recorded in the financial statements represent valid claims for charges arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value as follows:
  - a. Adequate consideration has been given to, and appropriate provision made for, estimated adjustments to revenue, such as for denied claims and changes to prospective payment system assignments.
  - b. Recorded valuation allowances are necessary, appropriate, and properly supported.
  - c. All peer review organizations, fiscal intermediary, and third-party payor reports and information have been made available to you.
24. Provision has been made, when material, for estimated retroactive adjustments by third-party payors under reimbursement agreements. In regards to cost reports filed with third-parties:
  - a. All required Medicare, Medicaid, and similar reports have been properly filed on a timely basis.
  - b. Management is responsible for the accuracy and propriety of all cost reports filed.
  - c. All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payors.
  - d. The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
  - e. Adequate consideration has been given to, and appropriate provision made for, audit adjustments by intermediaries, third-party payors, or other regulatory agencies.
  - f. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.

- g. Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based on historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the entity is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.
25. We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of assets might not be recoverable and have appropriately recorded the adjustment.
  26. We have fully disclosed to you all terms of contracts with customers that affect the amount and timing of revenue recognized in the financial statements, including delivery terms, rights of return or price adjustments, side adjustments, implicit provisions, unstated business conventions, and all warranty provisions.
  27. The Organization has identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and I we believe the estimates are reasonable in the circumstances.
  28. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the Organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
  29. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions and complying with terms of bond and debt agreements.
  30. Inventories fairly represent the value of inventories at the lower of cost on the last-in, first-out method, or net realizable value.
  31. The Organization is not subject to the requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* because it did not expend more than \$750,000 in federal awards during the year.



32. We acknowledge our responsibility for presenting the Management's Discussion and Analysis in accordance with GAAP, and we believe the Management's Discussion and Analysis, including its form and content, is fairly presented in accordance with GAAP. The methods of measurement and presentation of the Management's Discussion and Analysis have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
33. We acknowledge our responsibility for presenting the Schedule of Changes in Total OPEB Liability and Related Ratios – Other Postemployment Benefits (collectively, "Required Supplementary Information") in accordance with GAAP, and we believe the Required Supplementary Information, including its form and content, is fairly presented in accordance with GAAP. The methods of measurement and presentation of the Required Supplementary Information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the Required Supplementary Information.

Sincerely,

SKAGIT COUNTY PUBLIC HOSPITAL DISTRICT NO. 2 D/B/A ISLAND HOSPITAL

  
(Signature of Chief Executive Officer and Title)

  
(Signature of Chief Financial Officer and Title)



# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

Financial Statements and Required Supplementary  
Information

Years Ended December 31, 2019 and 2018

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**Skagit County Public Hospital District No. 2 d/b/a  
Island Hospital  
Financial Statements**

Years Ended December 31, 2019 and 2018

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## **Independent Auditor's Report**

Board of Commissioners  
Skagit County Public Hospital District No. 2  
d/b/a Island Hospital  
Anacortes, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Skagit County Public Hospital District No. 2 d/b/a Island Hospital (the "Hospital") as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Hospital's financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Skagit County Public Hospital District No. 2 d/b/a Island Hospital as of December 31, 2019 and 2018, and the changes in its net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 10 and the Schedule of Changes in Total Other Post-Employment Benefit Liability and Related Ratios on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2020, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

*Wipfli LLP*

Wipfli LLP  
April 28, 2020  
Spokane, Washington

# **Skagit County Public Hospital District No. 2 d/b/a Island Hospital Management's Discussion and Analysis**

December 31, 2019 and 2018

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## **Using This Annual Report**

The Hospital's financial statements consist of three statements: statements of net position; statements of revenue, expenses, and changes in net position; and statements of cash flows. These financial statements and related notes provide information about the activities of Skagit County Public Hospital District No. 2 d/b/a Island Hospital (the "Hospital"), including resources held by the Hospital, but restricted for specific purposes by contributors, grantors, or enabling legislation.

## **Statements of Net Position and Statements of Revenue, Expenses, and Changes in Net Position**

Our analysis of the Hospital's finances begins on page 4. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The statements of net position and the statements of revenue, expenses, and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. 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.

Those two statements report the Hospital's net position and changes in net position. You can think of the Hospital's net position—the difference between assets and liabilities—as one way to measure the Hospital's financial health or financial position. Over time, the increases or decreases in the Hospital's net position are one indicator of whether the financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

## **Statements of Cash Flows**

The final required statements are the statements of cash flows. The statements report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It also describes the sources and uses of cash during the reporting period.

## **Introduction**

The discussion and analysis of the Hospital's financial performance provides an overview of the financial activities for the years ended December 31, 2019 and 2018. The financial statements and notes are to be read in conjunction with this section. The following narrative utilizes approximate amounts unless otherwise specified.



# **Skagit County Public Hospital District No. 2 d/b/a Island Hospital**

## **Management's Discussion and Analysis (Continued)**

December 31, 2019 and 2018

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### **Financial Highlights**

For the fiscal year ended December 31, 2019, the Hospital reported a net operating loss of \$670,000, excess of revenue over expenses before capital contributions of \$4,391,000, and a margin of 4.5%. This compares to amounts in 2018 of a net operating loss of \$5,238,000, deficit of revenue over expenses of \$458,000, and a margin of (0.5)%.

The following significant events had an impact on the operating results for the Hospital:

- In May 2019 the current Chief Executive Officer Vince Oliver retired after 19 years at the Hospital. The Board of Commissioners (the "Board") embarked on a nationwide search to select a new CEO. In October 2019 Charles T. Hall was selected as the new Chief Executive Officer for the Hospital. Charles brings an impressive background and history of accomplishments to the hospital district with nearly a quarter century of progressive operational experience. Charles has led health-care organizations in creating new services, expanding and upgrading existing programs and delivering high-quality, evidence-based care.
- In 2019 Island Hospital was re-designated a four star hospital by the Centers for Medicare and Medicaid Services (CMS). Island Hospital is one of only 22 four-star hospitals in the State of Washington.
- In 2018 and 2019 the hospital recruited several new physicians and nurse practitioners to meet the access needs of the community. The new providers spanned many specialties including family practice, internal medicine, general surgery, psychiatry, interventional pain management, wound care, and obstetrics and gynecology.
- In November 2019 the Hospital issued a \$12,165,000 bond to fund the purchase of Unit 101 of the Island Medical Center Condo Association which houses one of the Hospital's rural health clinics, ob/gyn suite and general surgery practice. The Hospital also used the bond funds to purchase the building which housed the Island Hospital Sleep Wellness Center. The remaining funds were used for capital equipment.
- In December 2019 the Hospital issued new bonds totaling \$15,980,000 to advance refund \$14,065,000 of the 2012 UTGO bonds saving the District tax payers approximately \$1,000,000 due to a lower interest rate.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Management's Discussion and Analysis (Continued)

December 31, 2019 and 2018

### Financial Highlights (Continued)

- The Hospital participates in an agent multiple-employer other postemployment benefits plan (OPEB). In accordance with RCW 41.05.085 and RCW 41.05.022, eligible Hospital retirees and spouses are entitled to subsidies associated with postemployment health benefits provided through the Public Employee Benefits Board (PEBB). The PEBB was created within the Washington State Health Care Authority to administer medical, dental, and life insurance plans for public employees and retirees. The Hospital implemented GASB Statement 75 for the year ended December 31, 2017. This statement requires the Hospital to recognize total OPEB liabilities, and the related deferred inflows and outflows for its actuarially determined unfunded liabilities of postemployment plans available to retirees. Amounts that would have been reported as OPEB expense in prior periods were reported as a restatement as required. The prior period adjustment necessary to implement GASB Statement 75 was \$8,989,231, adding a 2016 OPEB obligation of \$9,077,550 and adding a deferred outflow amount of \$88,319. If the District decided to leave the PEBB, the related deferred inflows, outflows, and liabilities would be removed from the statements of net position. The Hospital recognized OPEB expenses of \$867,331 in 2019 and \$1,261,698 in 2018.
- The Hospital received \$500,000 in 2010 and \$100,000 from 2011 through 2019 from the Island Hospital Foundation for the purpose of funding the Medical Arts Pavilion with a commitment to receive \$100,000 per year through 2020. The Hospital also received the following from the Foundation:

Year	Capital	Other Program Support
2010	\$ 135,655	\$ 90,900
2011	144,200	86,700
2012	148,910	241,851
2013	113,472	175,853
2014	115,000	202,028
2015	2,500	260,917
2016	292,300	306,937
2017	600,740	396,106
2018	661,275	309,803
2019	897,674	531,762

- In July 2018, the Hospital issued a \$15,000,000 bond to fund repayment of the New Market Tax Credit loans A and C as well as facility improvements and other capital equipment.

# **Skagit County Public Hospital District No. 2 d/b/a Island Hospital**

## **Management's Discussion and Analysis (Continued)**

December 31, 2019 and 2018

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### **Financial Highlights (Continued)**

- In August 2018, the balloon payments classified as current liabilities as of December 31, 2017, under the Community Development Entity Loans came due. NDC CDE Loan B in the amount of \$1,770,800 and Kitsap CDE Loan D in the amount of \$729,000 are interest-only loans in the form of a Qualified Equity Investment on the District's New Markets Tax Credit Leveraged Loan and were forgiven by the Tax Credit Investor upon termination of the seven-year compliance period ending in August 2018. NDC CDE Loan A in the amount of \$5,373,200 and Kitsap CDE Loan C in the amount of \$2,121,000 were paid in full.
- The Hospital submitted an application to the Office of Management and Budget (OMB) of the United States requesting a reclassification from the Mount Vernon-Anacortes MSA to the Seattle-Tacoma-Olympia MSA for purposes of increasing reimbursement from the Medicare program. The application was approved by the OMB in December 2006 and approved by the Medicare Geographic Review Board in February 2007. The Hospital received extensions in subsequent periods that are effective through September 30, 2022.
- In May 2017, the Board approved requesting of the district taxpayers a levy lift of \$0.31 cents from the current existing \$0.19 cents. Proceeds from the levy lift will be used to fund facilities and equipment for the District. In August, the ballot measure passed with 51.77%.
- In 2018, the Hospital signed an agreement with TeamHealth to expand physician and non-physician coverage beyond the Emergency Department and include the Walk In Clinic and Hospitalists coverage.
- In February 2018, the Hospital obtained a \$4,000,000 line of credit with Washington Federal to fund operating and capital cash flow needs during the implementation of the new electronic medical record. Maturity for the line of credit is 24 months with quarterly interest payments.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Management's Discussion and Analysis (Continued)

December 31, 2019 and 2018

### Net Position

The summarized statements of net position as of December 31, 2019, 2018, and 2017, are as follows:

	2019	2018	2017
	(In Thousands)		
Current assets:			
Cash and cash equivalents	\$ 31,209	\$ 26,878	\$ 28,119
Patient accounts receivable - Net	9,231	9,714	8,733
Other current assets	<u>3,453</u>	<u>3,219</u>	<u>2,963</u>
Total current assets	<u>43,893</u>	<u>39,811</u>	<u>39,815</u>
Capital assets - Net	81,505	68,178	65,697
Other assets	12,310	13,373	6,987
Deferred outflows of resources	<u>1,390</u>	<u>1,869</u>	<u>1,615</u>
Total assets and deferred outflows of resources	<u><u>\$ 139,098</u></u>	<u><u>\$ 123,231</u></u>	<u><u>\$ 114,114</u></u>
Current liabilities	\$ 16,424	\$ 14,507	\$ 22,708
Long-term debt - Net	55,563	47,137	33,891
Total OPEB liability	7,734	11,897	9,864
Other liabilities	<u>592</u>	<u>873</u>	<u>904</u>
Total liabilities	<u>80,313</u>	<u>74,414</u>	<u>67,367</u>
Deferred inflows of resources - OPEB	<u>4,680</u>	<u>-</u>	<u>389</u>
Net position	<u>54,105</u>	<u>48,817</u>	<u>46,358</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 139,098</u></u>	<u><u>\$ 123,231</u></u>	<u><u>\$ 114,114</u></u>

Total assets and deferred outflows of resources increased by \$15,867,000 in 2019 and increased by \$9,117,000 in 2018. Current liabilities increased by \$1,917,000 in 2019 and decreased by \$8,200,000 in 2018.

Long-term debt increased by \$8,426,000 in 2019 and increased by \$13,247,000 in 2018.

The Hospital's net position is the difference between its assets and liabilities reported in the statements of net position. The Hospital's net position increased by \$5,288,000, or 10.8%, in 2019 and increased by \$2,459,000, or 5.3%, in 2018. GASB 75 was adopted in 2017, resulting in a cumulative effect for a change in accounting principal that decreased beginning 2017 net position by \$8,989,000.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Management's Discussion and Analysis (Continued)

December 31, 2019 and 2018

### Statements of Revenue, Expenses, and Changes in Net Position

The summarized statements of revenue, expenses, and changes in net position for the years ended December 31, 2019, 2018, and 2017, are as follows:

	2019	2018	2017
	(In Thousands)		
Operating revenue:			
Net patient service revenue	\$ 96,979	\$ 92,048	\$ 93,787
Other operating revenue	792	715	914
	<u>97,771</u>	<u>92,763</u>	<u>94,701</u>
Total operating revenue			
	<u>97,771</u>	<u>92,763</u>	<u>94,701</u>
Operating expenses:			
Salaries, wages, and benefits	53,275	52,901	54,061
Professional and physician fees	5,080	4,634	3,833
Supplies	22,932	23,720	23,206
Purchased services	9,258	8,887	8,436
Depreciation and amortization	4,575	4,810	4,101
Other	3,322	3,049	2,905
	<u>98,442</u>	<u>98,001</u>	<u>96,542</u>
Total operating expenses			
	<u>98,442</u>	<u>98,001</u>	<u>96,542</u>
Operating loss	(671)	(5,238)	(1,841)
Nonoperating revenue - Net	5,061	4,780	3,150
	<u>5,061</u>	<u>4,780</u>	<u>3,150</u>
Excess (deficit) of revenue over expenses	4,390	(458)	1,309
Capital contributions	898	561	601
Special items - Debt forgiveness	-	2,356	-
	<u>-</u>	<u>2,356</u>	<u>-</u>
Increase in net position	5,288	2,459	1,910
Net position at beginning of year	48,817	46,358	44,448
	<u>48,817</u>	<u>46,358</u>	<u>44,448</u>
Net position at end of year	<u>\$ 54,105</u>	<u>\$ 48,817</u>	<u>\$ 46,358</u>

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Management's Discussion and Analysis (Continued)

December 31, 2019 and 2018

### Statements of Revenue, Expenses, and Changes in Net Position (Continued)

#### Sources of Revenue

Net patient service revenue increased by \$4,931,000, or 5.4%, in 2019. This was a result of higher outpatient volumes, up 4.1% from budget. The collection percentage for the Hospital was 40% in both 2019 and 2018.

The percentage of revenue by payor class based on total patient service revenue for the years ended December 31, 2019, 2018, and 2017, was as follows:

	2019	2018	2017	2018 to 2019 Change
Medicare and Medicare Managed Care	53.0 %	52.4 %	52.5 %	0.6 %
Medicaid and Medicaid Managed Care	10.6 %	10.8 %	12.3 %	-0.2 %
Other government	10.4 %	11.7 %	10.6 %	-1.3 %
Commercial	24.8 %	23.6 %	23.1 %	1.2 %
Self-pay	1.2 %	1.5 %	1.5 %	-0.3 %
Totals	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	

Bad debt expense increased by \$321,000, or 21%, in 2019 and decreased by \$86,000, or 5%, in 2018.

Charity care/financial assistance write-offs increased by \$252,000, or 50%, in 2019 and decreased by \$123,000, or 20%, in 2018.

#### Operating Expenses

Total operating expenses in 2019 increased by \$439,000, or 0.45%, compared to an increase of \$1,461,000, or 0.15%, in 2018. Primary factors in the change in total operating expenses were as follows:

- Salaries, wages, and benefits increased by 0.7% in 2019. Total FTEs remained the same at a total of 551 in 2019 and 2018.
- Professional and physician fees expense increased by 9.6% in 2019 due to costs related to general surgery, a new Hospitalists agreement, and CEO recruitment costs.
- Purchased services increased by 4.2% in 2019 due to increases in contracted labor costs.
- Supplies decreased by 3.3% in 2019 due to renegotiated surgical implant costs.

# **Skagit County Public Hospital District No. 2 d/b/a Island Hospital**

## **Management's Discussion and Analysis (Continued)**

December 31, 2019 and 2018

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### **Statements of Revenue, Expenses, and Changes in Net Position (Continued)**

#### Operating Expenses (Continued)

- Depreciation decreased by 4.9% percent in 2019.
- Other operating expenses increased by 8.8% in 2019 due to an increase in rental cost.

### **Currently Known Facts, Decisions, or Conditions**

The Washington State Auditor's Office performed a financial and compliance audit for the year ended December 31, 2018. The Hospital was issued a report with no findings.

In 2010, the Hospital contracted with DNV Healthcare, Inc. (DNV) to conduct the accreditation survey and was issued an accreditation certificate on March 19, 2013, which has been renewed and is now good through March 2022. The DNV accreditation process requires annual surveys, and DNV was at the Hospital February 11th – February 13th conducting their 2020 survey. The Hospital received its final report of findings and have responded with a corrective action plans to address those findings.

The Medicare cost report for 2018 has been filed and is awaiting final review. The Medicare cost report for 2019 will be filed in May 2020.

### **Contacting the Hospital's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Administration, Skagit County Public Hospital District No. 2, 1211 24th Street, Anacortes, Washington 98221.



# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Statements of Net Position

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 31,208,960	\$ 26,877,586
Receivables:		
Patient - Net	9,231,363	9,714,394
Other	539,569	391,292
Prepaid expenses	959,844	1,190,800
Inventories	1,723,946	1,614,817
Noncurrent cash, cash equivalents, and investments required for current liabilities	<u>229,940</u>	<u>22,077</u>
Total current assets	<u>43,893,622</u>	<u>39,810,966</u>
Noncurrent cash, cash equivalents, and investments, less current portion:		
Noncurrent cash and cash equivalents, less current portion	11,453,127	11,779,767
Noncurrent investments	<u>258,261</u>	<u>463,709</u>
Total noncurrent cash, cash equivalents, and investments, less current portion	<u>11,711,388</u>	<u>12,243,476</u>
Capital assets:		
Nondepreciable capital assets	11,032,893	5,588,656
Depreciable capital assets - Net	<u>70,471,630</u>	<u>62,589,806</u>
Capital assets - Net	<u>81,504,523</u>	<u>68,178,462</u>
Other assets:		
Intangible assets - Net	598,703	598,703
Purchase option	<u>-</u>	<u>530,499</u>
Total other assets	<u>598,703</u>	<u>1,129,202</u>
Deferred outflows of resources:		
Loss on refunding of long-term debt	1,262,135	1,390,391
Other post-employment benefits	<u>127,862</u>	<u>479,141</u>
Total deferred outflows of resources	<u>1,389,997</u>	<u>1,869,532</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>\$ 139,098,233</u></u>	<u><u>\$ 123,231,638</u></u>

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Statements of Net Position (Continued)

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 3,285,617	\$ 2,132,782
Accounts payable	5,397,713	4,561,501
Line of credit	1,725,000	1,725,000
Accrued payroll and related liabilities	4,299,521	4,093,652
Accrued interest	128,134	157,561
Estimated third-party payer settlements	1,155,551	1,481,262
Other current liabilities	<u>432,893</u>	<u>355,558</u>
Total current liabilities	<u>16,424,429</u>	<u>14,507,316</u>
Long-term liabilities:		
Long-term debt and capital lease obligations, less current portion	55,563,322	47,137,451
Deferred compensation payable	263,079	470,289
Professional liability claims payable	328,655	402,300
Total OPEB liability	<u>7,733,619</u>	<u>11,897,237</u>
Total long-term liabilities	<u>63,888,675</u>	<u>59,907,277</u>
Total liabilities	<u>80,313,104</u>	<u>74,414,593</u>
Deferred inflows of resources - Other post-employment benefits	<u>4,679,670</u>	<u>-</u>
Net position:		
Net investment in capital assets	22,655,584	18,908,229
Restricted, expendable	10,819,317	11,018,226
Unrestricted	<u>20,630,558</u>	<u>18,890,590</u>
Total net position	<u>54,105,459</u>	<u>48,817,045</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b><u>\$ 139,098,233</u></b>	<b><u>\$ 123,231,638</u></b>

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Statements of Revenue, Expenses, and Changes in Net Position

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenue:		
Net patient service revenue	\$ 96,978,850	\$ 92,048,041
Other operating income	<u>792,424</u>	<u>715,301</u>
Total operating revenue	<u>97,771,274</u>	<u>92,763,342</u>
Operating expenses:		
Salaries and wages	41,891,488	41,292,345
Employee benefits	11,383,608	11,608,297
Professional and physician fees	5,079,799	4,633,783
Supplies	22,932,003	23,720,182
Purchased services	9,258,368	8,886,816
Rents and leases	857,722	829,287
Depreciation and amortization	4,575,135	4,809,718
Other expenses	<u>2,463,438</u>	<u>2,221,277</u>
Total operating expenses	<u>98,441,561</u>	<u>98,001,705</u>
Operating loss	<u>(670,287)</u>	<u>(5,238,363)</u>
Nonoperating revenue (expense):		
Investment income	797,950	582,922
Interest expense	(1,864,230)	(2,029,982)
Tax levy	5,517,553	5,336,994
Loss from investment in joint venture	(40,203)	-
Other nonoperating revenue - Net	<u>650,081</u>	<u>890,507</u>
Total nonoperating revenue - Net	<u>5,061,151</u>	<u>4,780,441</u>
Income (loss) before capital contributions, excess (deficit) of revenue over expenses	4,390,864	(457,922)
Capital contributions	897,550	561,275
Special item - Debt forgiveness	<u>-</u>	<u>2,355,800</u>
Increase in net position	5,288,414	2,459,153
Net position, beginning of year	<u>48,817,045</u>	<u>46,357,892</u>
Net position, end of year	<u><u>\$ 54,105,459</u></u>	<u><u>\$ 48,817,045</u></u>

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 97,136,170	\$ 91,338,731
Payments to suppliers and contractors	(39,843,450)	(41,469,785)
Payments to and on behalf of employees	(52,203,658)	(51,662,987)
Receipts from other operating revenue	<u>792,424</u>	<u>715,301</u>
Net cash provided by (used in) operating activities	<u>5,881,486</u>	<u>(1,078,740)</u>
Cash flows from noncapital financing activities:		
Other nonoperating receipts, including contributions	<u>884,357</u>	<u>1,101,920</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(17,518,258)	(6,546,936)
Proceeds from issuance of long-term debt	28,145,000	15,000,000
Principal payments on long-term debt and capital lease obligations	(16,878,253)	(9,572,955)
Interest payments on long-term debt and capital lease obligations	(3,503,025)	(2,195,082)
Receipts from tax levy - Debt service	2,527,085	2,435,008
Receipts from tax levy - Maintenance and operations	2,978,705	2,896,266
Contributions for capital assets	897,550	561,275
Net borrowings on line of credit	<u>-</u>	<u>1,725,000</u>
Net cash provided by (used in) capital and related financing activities	<u>(3,351,196)</u>	<u>4,302,576</u>
Cash flows from investing activities -		
Proceeds from interest and dividends on investments	797,950	564,922
Net increase in cash and cash equivalents	4,212,597	4,890,678
Cash and cash equivalents - Beginning of year	<u>38,679,430</u>	<u>33,788,752</u>
Cash and cash equivalents - End of year	<u><u>\$ 42,892,027</u></u>	<u><u>\$ 38,679,430</u></u>

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Statements of Cash Flows (Continued)

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (670,287)	\$ (5,238,363)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,575,135	4,809,718
Provision for bad debts	1,856,639	1,535,434
Changes in assets, liabilities, and related deferred inflows and outflows of resources:		
Receivables:		
Patient - Net	(1,373,608)	(2,516,466)
Other	(136,514)	(143,732)
Prepaid expenses	230,956	(364,427)
Inventories	(109,129)	34,601
Accounts payable	836,212	(661,255)
Accrued payroll and related liabilities	205,869	(24,075)
Estimated third-party payor settlements	(325,711)	271,722
Deferred compensation payable	(1,762)	32
Professional liability claims payable	(73,645)	(43,627)
Other post-employment benefits and related deferred inflows and outflows of resources	<u>867,331</u>	<u>1,261,698</u>
Net cash provided by (used in) operating activities	<u>\$ 5,881,486</u>	<u>\$ (1,078,740)</u>
<b>Reconciliation of cash and cash equivalents to the statements of net position:</b>		
Cash and cash equivalents in current assets	\$ 31,208,960	\$ 26,877,586
Noncurrent cash and cash equivalents	<u>11,683,067</u>	<u>11,801,844</u>
Total cash and cash equivalents	<u>\$ 42,892,027</u>	<u>\$ 38,679,430</u>
<b>Noncash capital and financing activities:</b>		
Equipment acquired under capital lease obligations	\$ 49,583	\$ 775,044
Forgiveness of debt	-	2,355,800
Loss on disposal of capital assets	197,144	-
Exercise of purchase option	530,499	-
<b>Supplemental cash flow information:</b>		
Taxes receivable	\$ 61,675	\$ 49,912

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies

#### The Entity

The financial statements include the accounts of Skagit County Public Hospital District No. 2 d/b/a Island Hospital (the "Hospital"), located in Anacortes, Washington.

The Hospital is organized as a municipal corporation pursuant to the laws of the state of Washington. As organized, the Hospital is exempt from federal income tax. The Hospital's Board of Commissioners is comprised of five community members elected by local voters to six-year terms. The Hospital is not considered to be a component unit of the County. The Hospital is an acute-care community hospital with 43 licensed beds that provides services for Anacortes and surrounding communities. The Hospital operates two primary care clinics: Anacortes Family Medicine and Fidalgo Medical Associates at Island Hospital.

#### Financial Statement Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The accounting records of the Hospital are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW and the *Washington State Department of Health Accounting and Reporting Manual for Hospitals*.

The Hospital's statements are reported using the economic resources measurement focus and full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when the liability is incurred, regardless of the timing of the cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Use of Estimates**

The preparation of the accompanying financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly 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 revenue and expenses during the reporting period. Actual results may differ from these estimates.

#### **Cash and Cash Equivalents**

The Hospital considers all highly liquid debt instruments, including noncurrent cash and cash equivalents, with an original maturity of three months or less to be cash equivalents.

#### **Patient Accounts Receivable and Credit Policy**

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The Hospital bills the third-party payors on the patient's behalf, or, if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary payor is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivable are applied to the specific claim identified on the remittance advice or statement. The Hospital does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying statements of net position net of contractual adjustments and an allowance for uncollectible accounts, which reflect management's estimate of the amounts that will not be collected. The carrying amounts of patient accounts receivable are reduced by allowances that reflect management's estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In addition, management provides for probable uncollectible amounts, primarily for uninsured patients and amounts patients are personally responsible for, through a reduction of gross revenue and a credit to the allowance for uncollectible accounts.

In evaluating the collectability of patient accounts receivable, the Hospital analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data from the major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts and a provision for bad debts 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.



# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Patient Accounts Receivable and Credit Policy** (Continued)

For receivables associated with self-pay patients (which includes patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant 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 undiscounted 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.

#### **Inventories**

Inventories consist of medical, surgical, and pharmaceutical supplies and are stated at the lower of cost, determined by the last-in, first-out method, or market value.

#### **Investments**

Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity of one year or less at the time they are purchased. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenues when earned.

#### **Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Hospital measures fair value of its financial instruments using a three-tier hierarchy that prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

#### **Noncurrent Cash, Cash Equivalents, and Investments**

Noncurrent cash, cash equivalents, and investments include assets set aside for future capital improvements or other designated uses over which the Board of Commissioners retains control and assets restricted by donors or by bond agreements for capital improvements or debt service.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Capital Assets

Capital assets are stated at historical cost. Equipment under capital leases is stated at the present value of minimum lease payments. Maintenance, repairs, and minor replacements are charged to expense as incurred. The Hospital's policy is to capitalize all capital asset expenditures exceeding \$1,000. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Equipment held under capital leases and leasehold improvements is amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. Such amortization is included in depreciation and amortization expense in the accompanying financial statements. The Hospital estimates the useful lives of assets to be as follows:

Land improvements	15 to 20 years
Buildings and leasehold improvements	13 to 60 years
Equipment	3 to 20 years

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

#### Impairment of Long-Lived Assets

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude, and the event or change in circumstances is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent upon the event or circumstance in which the impairment occurred. Impairment losses, if any, are reported in the accompanying statements of revenue, expenses, and changes in net position. During 2019 and 2018, the Hospital determined that no evaluations of recoverability were necessary.

#### Intangible Assets

Intangible assets include goodwill and restrictive covenants related to the purchase of the Island Radiology practice in January 2004, the purchase of Fidalgo Medical Associates in 2008, and the purchase of Island Surgeons in 2009. Goodwill is reviewed annually for impairment. The value of the restrictive covenants was fully amortized in prior fiscal years.

# **Skagit County Public Hospital District No. 2 d/b/a Island Hospital**

## **Notes to Financial Statements**

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statements of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Hospital reports deferred outflows of resources for contributions to other post-employment benefit plans subsequent to the measurement date of the other post-employment benefits liability. In addition, the Hospital has recognized losses on refunding of long-term debt, resulting from a difference in the carrying value of refunded debt and its reacquisition price. The loss on refunding of long-term debt is recognized as a deferred outflow of resources and amortized over the life of the new debt, using the effective interest method.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents the acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Hospital reports deferred inflows of resources related to its other post-employment benefits liability.

#### **Compensated Absences**

The Hospital's employees earn paid time-off for vacation, holidays, and short-term illnesses at varying rates, depending on years of service. The related liability is accrued during the period in which it is earned.

#### **Net Position**

Net position of the Hospital is classified into three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is noncapital net position that must be used for a particular purpose as specified by creditors, grantors, contributors external to the Hospital, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation and includes amounts deposited with trustees as required by revenue bond indenture and note payable escrow agreements. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

When both restricted and unrestricted resources are available for use, it is the Hospital's policy to use externally restricted resources first.

# **Skagit County Public Hospital District No. 2 d/b/a Island Hospital**

## **Notes to Financial Statements**

---

### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Operating Revenue and Expenses**

The Hospital's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services, the Hospital's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. All other revenue and expenses not meeting these definitions, including property tax revenue, investment income, interest income, and interest expense, are reported as nonoperating revenue and expenses.

#### **Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated uncollectible revenue is reported as provision for bad debts in the financial statements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Some health care is provided with the knowledge that it will not be reimbursed. This is reported under charity care/financial assistance.

For uninsured patients who do not qualify for charity care/financial assistance, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for services provided. Thus, the Hospital records a provision for bad debts related to uninsured patients in the period the services are provided.

# **Skagit County Public Hospital District No. 2 d/b/a Island Hospital**

## **Notes to Financial Statements**

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Charity Care/Financial Assistance**

The Hospital provides care to patients who meet certain criteria under its charity care/financial assistance policy without charge or at amounts less than established rates. The Hospital maintains records to identify the amount of charges foregone for services and supplies furnished under its charity care/financial assistance policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care/financial assistance, they are not reported as net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position.

#### **Advertising Costs**

Advertising costs are expensed as incurred.

#### **Grants and Contributions**

From time to time, the Hospital receives grants from Skagit County and the state of Washington, as well as contributions from individuals and private organizations. Revenue from grants and contributions may be restricted for either specific operating purposes or capital purposes. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted for capital acquisitions are reported after nonoperating revenue and expenses.

#### **Subsequent Events**

Subsequent events have been evaluated through April 28, 2020, which is the date the financial statements were available to be issued. Subsequent events are addressed in Note 18.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### Note 2: Deposits and Investments

*Credit risk:* The *Revised Code of Washington* (RCW), Chapter 39, authorizes municipal governments to invest their funds in a variety of investments, including federal, state, and local government certificates, notes, or bonds; the State of Washington Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments.

*Custodial credit risk:* State law requires collateralization of all deposits with federal depository insurance or other acceptable collateral. The Hospital's cash on deposit with banks is insured through the Federal Deposit Insurance Corporation up to \$250,000 per financial institution. Cash on deposit with the Washington State Local Government Investment Pool and with qualified public depositories is protected against loss by the State of Washington Public Deposit Protection Commission, as provided for by RCW 39.58, subject to certain limitations.

The Skagit County Treasurer acts as the treasurer for certain deposits and investments of the Hospital. Deposits that are not covered by depository insurance are collateralized in the name of the County, and uninsured investments are registered in the name of the County.

*Interest rate risk:* The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Cash and cash equivalents consisted of the following at December 31:

	2019	2018
Cash on hand	\$ 3,350	\$ 3,250
Washington Federal Bank, depository accounts	2,342,012	2,300,419
Skagit County Treasurer's Office	686,734	2,045,599
Washington State Local Government Investment Pool	28,176,864	22,528,318
Total cash and cash equivalents	<u>\$ 31,208,960</u>	<u>\$ 26,877,586</u>

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### **Note 2: Deposits and Investments** (Continued)

Average days to maturity of Washington State Local Government Investment Pool assets was 51 days at December 31, 2019.

The Washington State Local Government Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. It is a voluntary investment vehicle operated by the Washington State Treasurer. Over 530 local governments have participated in the Pool since it was started in 1986 to provide safe, liquid, and competitive investment options for local governments pursuant to the Revised Code of Washington (RCW) 43.250. All investments are subject to written policies and procedures adopted by the State Treasurer's Office. The Washington State Local Government Investment Pool is considered extremely low risk. Funds are invested in a portfolio of securities in a manner generally consistent with the SEC's Rule 2A-7 of the Investment Company Act of 1940 as it currently stands. The Washington State Local Government Investment Pool functions as a demand deposit account where the County receives an allocation of its proportionate share of pooled earnings using an amortized cost methodology. Unrealized gains and losses due to changes in the fair values are not distributed to the District.

The Washington State Local Government Investment Pool manages a portfolio of securities that meet the maturity, quality, diversification, and liquidity requirements set forth by the Governmental Accounting Standards Board (GASB) for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost.

The Washington State Local Government Investment Pool transacts with its participants at a stable net asset value per share of \$1.00, the same method used for reporting. Participants may contribute and withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer (OST) of any contribution or withdrawal over one million dollars no later than 9am on the same day the transaction is made. Contributions or withdrawals for one million dollars or less can be requested at any time prior to 10am on the day of the transaction. However, participants may complete transactions greater than one million dollars when notification is made between 9am and 10am, at the sole discretion of OST. All participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds. The Washington State Local Government Investment Pool does not impose liquidity fees or redemption gates on participant withdrawals.

The Washington State Local Government Investment Pool is not subject to the fair value hierarchy disclosures and is considered cash for purposes of presenting cash flows.



# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

### Note 2: Deposits and Investments (Continued)

Noncurrent cash, cash equivalents, and investments consisted of the following at December 31:

	2019	2018
Internally designated by Board:		
Cash and cash equivalents - Capital improvements	\$ 550,094	\$ 109,745
Accrued interest - Capital improvements	68,058	59,183
Washington State Local Government Investment Pool - Capital improvements	245,598	614,690
Investments - Deferred compensation arrangements	258,261	463,709
Total internally designated by the Board	<u>1,122,011</u>	<u>1,247,327</u>
Restricted:		
Proceeds of 2004/2012 Unlimited Tax General Obligation bonds to be used for capital improvements		
Cash and cash equivalents	174,182	177,891
Washington State Local Government Investment Pool	259,101	227,879
Totals	<u>433,283</u>	<u>405,770</u>
Restricted for the repayment of 2005/2014 Refunding Limited Tax General Obligation Bonds:		
Cash and cash equivalents	216,553	214,837
Washington State Local Government Investment Pool	4,383,254	2,707,422
Totals	<u>4,599,807</u>	<u>2,922,259</u>
Restricted for the repayment of new market tax credit loans - Washington State Local Government Investment Pool	1,742,612	1,700,972
Restricted proceeds of 2018 Limited Tax General Obligation Bonds to be used for capital improvements - Cash and cash equivalents	129	5,988,524
Restricted proceeds of 2018 Limited Tax General Obligation Bonds to be used for capital improvements - Washington State Local Government Investment Pool	1,268,497	701
Restricted proceeds of 2019 Limited Tax Federal Obligation Bonds to be used for capital improvements - Washington State Local Government Investment Pool	2,774,989	-
Total restricted	<u>10,819,317</u>	<u>11,018,226</u>
Total noncurrent cash, cash equivalents, and investments	11,941,328	12,265,553
Less - Current portion	<u>229,940</u>	<u>22,077</u>
Noncurrent cash, cash equivalents, and investments - Less current portion	<u>\$ 11,711,388</u>	<u>\$ 12,243,476</u>

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### Note 3: Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value.

*Money market funds:* Valued using a net asset value (NAV) of \$1.

*Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.

*Equities:* The fair value for equities is determined based on quoted market prices and other observable market data.

The Hospital's investments by level within the fair value hierarchy were as follows at December 31, 2019:

	Level 1	Level 2	Level 3	Total Assets at Fair Value
Money market funds	\$ 113,828	\$ -	\$ -	\$ 113,828
Mutual funds	144,433	-	-	144,433
Total investments at fair value	<u>\$ 258,261</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 258,261</u>

The Hospital's investments by level within the fair value hierarchy were as follows at December 31, 2018:

	Level 1	Level 2	Level 3	Total Assets at Fair Value
Money market funds	\$ 129,527	\$ -	\$ -	\$ 129,527
Mutual funds	290,120	-	-	290,120
Equities	44,062	-	-	44,062
Total investments at fair value	<u>\$ 463,709</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 463,709</u>

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### Note 4: Patient Accounts Receivable

The Hospital has a concentration of credit risk with respect to unsecured patient accounts receivable. The majority of the Hospital's patients are local residents and are insured under third-party payor agreements.

Patient accounts receivable consisted of the following at December 31:

	2019	2018
Patients and their insurance carriers	\$ 6,934,802	\$ 6,995,166
Medicare	3,154,791	3,170,275
Medicaid	1,080,056	1,339,343
	<u>11,169,649</u>	<u>11,504,784</u>
Total patient accounts receivable, net of contractual allowances	11,169,649	11,504,784
Less - Allowance for doubtful accounts	<u>1,938,286</u>	<u>1,790,390</u>
	<u>9,231,363</u>	<u>9,714,394</u>
Patient receivables - Net	<u>\$ 9,231,363</u>	<u>\$ 9,714,394</u>

### Note 5: Reimbursement Arrangements With Third-Party Payors

The Hospital has agreements with third-party payors that provide for reimbursement at amounts that vary from the Hospital's established rates. A summary of the basis of reimbursement with major third-party payors follows:

#### Medicare

Inpatient acute care services provided by the Hospital rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services provided to Medicare program beneficiaries are reimbursed on a prospective payment methodology, also based on a patient classification system, and fee schedules.

#### Medicaid

Medicaid reimbursement for Hospital inpatient services is based on a cost-reimbursement methodology whereby the Hospital's costs are estimated using a cost-to-charge ratio from an established base-year. Medicaid reimbursement for most outpatient hospital and clinic services is prospectively set based on the ratio of estimated aggregate costs to aggregate charges. Certain outpatient services and physician services are reimbursed based on predetermined fee schedules.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### **Note 5: Reimbursement Arrangements With Third-Party Payors** (Continued)

#### **Other**

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

#### **Physician and Professional Services in Rural Health Clinics**

Certain physician and professional services rendered to Medicare and Medicaid beneficiaries qualify for reimbursement as Medicare-approved rural health clinic services. Qualifying services are reimbursed based on a cost-reimbursement methodology. Under federal law, rural health clinics also are entitled to receive an additional payment for the difference between cost and the amount paid by Medicaid managed-care health plans. All other physician and professional services rendered to Medicare and Medicaid beneficiaries are paid based on prospectively determined fee schedules.

#### **Accounting for Contractual Arrangements**

The Hospital is reimbursed for certain cost-reimbursable items at an interim rate, and final settlements are determined after an audit of the Hospital's related annual cost reports by the respective Medicare and Medicaid fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying financial statements. Differences between the Hospital's estimates and subsequent final settlements by the Medicare and Medicaid fiscal intermediary will be included in future statements of revenue, expenses, and changes in net position. The cost reports for the Hospital have been audited by Medicare intermediaries through December 31, 2016.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### **Note 5: Reimbursement Arrangements With Third-Party Payors (Continued)**

#### **Compliance**

The health care industry is subject to numerous laws and regulations of 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 billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of fines and penalties, as well as repayments for patient services previously billed. 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.

CMS uses recovery audit contractors (RAC) as part of its efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that might have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once the RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. Certain states also have hired Medicaid Integrity Contractors (MIC) to perform audits similar to RACs. The Hospital will have the ability to appeal adjustments before final settlement of the claim is made. As of December 31, 2019, the Hospital has not been notified by any RAC or MIC of any potential significant reimbursement adjustments.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

### Note 6: Capital Assets

Capital assets activity for the year ended December 31, 2019, was as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Depreciable capital assets:					
Land improvements	\$ 2,130,330	\$ -	\$ -	\$ -	\$ 2,130,330
Buildings and leasehold improvements	73,192,902	10,604,805	-	-	83,797,707
Fixed equipment	8,808,918	110,258	-	(12,920)	8,906,256
Major moveable equipment	35,213,997	1,380,660	558,380	(2,661,738)	34,491,299
 Total depreciable capital assets	 119,346,147	 12,095,723	 558,380	 (2,674,658)	 129,325,592
Less accumulated depreciation for :					
Land improvements	1,854,296	49,640	-	-	1,903,936
Buildings and leasehold improvements	25,281,134	1,776,379	-	(26,213)	27,031,300
Fixed equipment	7,134,811	259,775	-	(12,920)	7,381,666
Major movable equipment	22,486,100	2,489,341	-	(2,438,381)	22,537,060
 Total accumulated depreciation	 56,756,341	 4,575,135	 -	 (2,477,514)	 58,853,962
Depreciable capital assets - Net	62,589,806	7,520,588	558,380	(197,144)	70,471,630
Nondepreciable capital assets:					
Artwork	313,545	230	-	-	313,775
Land	4,708,577	439,188	-	-	5,147,765
Construction in progress	566,534	5,563,199	(558,380)	-	5,571,353
 Total nondepreciable capital assets	 5,588,656	 6,002,617	 (558,380)	 -	 11,032,893
Capital assets - Net	\$ 68,178,462	\$ 13,523,205	\$ -	\$ (197,144)	\$ 81,504,523

Construction in progress at December 31, 2019, consisted of facilities improvement projects and various small improvement projects within the Hospital.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

### Note 6: Capital Assets (Continued)

Capital assets activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Depreciable capital assets:					
Land improvements	\$ 2,130,330	\$ -	\$ -	\$ -	\$ 2,130,330
Buildings and leasehold improvements	70,037,832	-	3,155,070	-	73,192,902
Fixed equipment	8,808,918	-	-	-	8,808,918
Major movable equipment	28,995,534	1,181,584	8,285,265	(3,248,386)	35,213,997
 Total depreciable capital assets	 109,972,614	 1,181,584	 11,440,335	 (3,248,386)	 119,346,147
Less accumulated depreciation for :					
Land improvements	1,583,532	270,764	-	-	1,854,296
Buildings and leasehold improvements	23,541,051	1,740,083	-	-	25,281,134
Fixed equipment	6,769,087	365,724	-	-	7,134,811
Major movable equipment	23,273,713	2,433,147	-	(3,220,760)	22,486,100
 Total accumulated depreciation	 55,167,383	 4,809,718	 -	 (3,220,760)	 56,756,341
 Depreciable capital assets - Net	 54,805,231	 (3,628,134)	 11,440,335	 (27,626)	 62,589,806
Nondepreciable capital assets:					
Artwork	314,539	2,192	-	(3,186)	313,545
Land	4,708,577	-	-	-	4,708,577
Construction in progress	5,868,665	6,138,204	(11,440,335)	-	566,534
 Total nondepreciable capital assets	 10,891,781	 6,140,396	 (11,440,335)	 (3,186)	 5,588,656
 Capital assets - Net	 \$ 65,697,012	 \$ 2,512,262	 \$ -	 \$ (30,812)	 \$ 68,178,462

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### Note 6: Capital Assets (Continued)

The Hospital's net investment in capital assets included the following at December 31:

	2019	2018
Capital assets - Net	\$ 81,504,523	\$ 68,178,462
Less:		
Long-term debt and capital lease obligations	<u>58,848,939</u>	<u>49,270,233</u>
Totals	<u>\$ 22,655,584</u>	<u>\$ 18,908,229</u>

### Note 7: Purchase Option

The Hospital entered into an option agreement to purchase real property in March 2006. As part of the purchase option agreement, the Hospital made an initial payment to the seller of \$300,000 as additional consideration for the rights granted to the Hospital under the agreement. If the Hospital exercises the purchase option, the Hospital will have a credit against the purchase price of \$300,000 plus accrued interest earned at an annual rate of 6%. The Hospital exercised the purchase option in December 2019.



# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

### Note 8: Long-Term Liabilities

Long-term liabilities activity for the year ended December 31, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Long-term debt:					
2019 LTGO Bonds	\$ -	\$ 12,165,000	\$ -	\$ 12,165,000	\$ 235,000
2019 Refunding UTGO Bonds	-	15,980,000	-	15,980,000	230,000
2018 LTGO Bonds	15,000,000	-	-	15,000,000	560,000
2012 Refunding UTGO Bonds	21,015,000	-	(15,875,000)	5,140,000	1,595,000
2014 Refunding LTGO Bonds	10,140,000	-	(460,000)	9,680,000	490,000
Long-term debt before unamortized premiums	46,155,000	28,145,000	(16,335,000)	57,965,000	3,110,000
Unamortized premiums on long-term debt	2,299,041	-	(1,737,624)	561,417	-
Total long-term debt	48,454,041	28,145,000	(18,072,624)	58,526,417	3,110,000
Capital lease obligations - Medical equipment	816,192	49,583	(543,253)	322,522	175,617
Total long-term debt and capital lease obligations	49,270,233	28,194,583	(18,615,877)	58,848,939	3,285,617
Other long-term liabilities:					
Deferred compensation payable	470,289	125,923	(333,133)	263,079	-
Professional liability claims payable	402,300	15,089	(88,734)	328,655	-
Total other long-term liabilities	872,589	141,012	(421,867)	591,734	-
Total long-term liabilities	<u>\$ 50,142,822</u>	<u>\$ 28,335,595</u>	<u>\$(19,037,744)</u>	<u>\$ 59,440,673</u>	<u>\$ 3,285,617</u>

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

### Note 8: Long-Term Liabilities (Continued)

Long-term liabilities activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Long-term debt:					
2018 LTGO Bonds	\$ -	\$15,000,000	\$ -	\$ 15,000,000	\$ -
2012 Refunding UTGO Bonds	22,390,000	-	(1,375,000)	21,015,000	1,480,000
2014 Refunding LTGO Bonds	10,575,000	-	(435,000)	10,140,000	460,000
NDC CDE Loan A	5,373,200	-	(5,373,200)	-	-
NDC CDE Loan B	1,770,800	-	(1,770,800)	-	-
Kitsap CDE Loan C	2,121,000	-	(2,121,000)	-	-
Kitsap CDE Loan D	729,000	-	(729,000)	-	-
Long-term debt before unamortized premiums	42,959,000	15,000,000	(11,804,000)	46,155,000	1,940,000
Unamortized premiums on long- term debt	2,624,297	-	(325,256)	2,299,041	-
Total long-term debt	45,583,297	15,000,000	(12,129,256)	48,454,041	1,940,000
Capital lease obligations - Medical equipment	165,903	775,044	(124,755)	816,192	192,782
Total long-term debt and capital lease obligations	45,749,200	15,775,044	(12,254,011)	49,270,233	2,132,782
Other long-term liabilities:					
Deferred compensation payable	458,104	12,185	-	470,289	-
Professional liability claims payable	445,927	-	(43,627)	402,300	-
Total other long-term liabilities	904,031	12,185	(43,627)	872,589	-
Total long-term liabilities	<u>\$ 46,653,231</u>	<u>\$15,787,229</u>	<u>\$ (12,297,638)</u>	<u>\$ 50,142,822</u>	<u>\$ 2,132,782</u>

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### **Note 8: Long-Term Liabilities** (Continued)

The terms and due dates of the Hospital's long-term debt and capital lease obligations are as follows:

#### 2019 UTGO Bonds

Unlimited tax general obligation (UTGO) bonds of \$15,980,000, dated December 30, 2019, were issued. Proceeds were used to advance refund principal amounts totaling \$14,395,000 of the callable 2012 refunding bonds.

The refunding resulted in an economic gain of \$728,715 and a decrease in cash flows to service debt related to the refunding of \$798,668.

Interest is payable semiannually on June 1 and December 1, beginning June 1, 2020, at ranging from 2.14% to 2.73%. The bonds mature in principal installments ranging from \$230,000 in 2020 to \$2,845,000 in 2028.

The Hospital irrevocably pledged to levy and collect taxes annually in sufficient amounts to pay the bond principal and interest payments when due. No taxes were levied in 2019 for these bonds as the bonds weren't issued until December 2019.

#### 2019 LTGO Bonds

Limited tax general obligation (LTGO) bonds of \$12,165,000, dated November 26, 2019, were issued to fund the purchase of Unit 101 of the Island Medical Center Condominium Association, the Sleep Center facility, and fund other facility improvements and capital purchases.

Interest is payable semiannually on June 1 and December 1, beginning December 1, 2019, at 3.01%. The bonds mature in principal installments ranging from \$235,000 in 2020 to \$2,515,000 in 2039. Scheduled maturities will be subject to redemption at the option of the Hospital on any date, in whole or in part, at par plus accrued interest to the date of redemption.

The Hospital irrevocably pledged to levy and collect taxes annually in sufficient amounts to pay the bond principal and interest payments when due. No taxes were levied in 2019 for these bonds as the bonds weren't issued until December 2019.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### **Note 8: Long-Term Liabilities** (Continued)

#### 2018 LTGO Bonds

Limited tax general obligation (LTGO) bonds of \$15,000,000, dated June 11, 2018, were issued to fund repayment of the NDC CDE Loan A and Kitsap CDE Loan C, fund facility improvements, and other capital purchases.

Interest is payable semiannually on June 1 and December 1, beginning December 1, 2018, at 3.7%. The bonds mature in principal installments ranging from \$560,000 in 2020 to \$1,255,000 in 2038. Scheduled maturities will be subject to redemption at the option of the Hospital on any date, in whole or in part, at par plus accrued interest to the date of redemption.

#### 2012 Refunding UTGO Bonds

Unlimited tax general obligation (UTGO) bonds of \$26,550,000, dated September 26, 2012, were issued to advance refund and in substance defease the principal amounts totaling \$26,730,000 of the 2004 unlimited tax general obligation bonds. The 2004 bonds were used to finance capital improvements for the Hospital. In 2019 \$14,395,000 of the callable refunding bonds were called.

Interest is payable semiannually on June 1 and December 1, beginning December 1, 2012, at rates that range from 2% to 5%. The remaining bonds mature in principal installments ranging from \$1,595,000 in 2020 to \$1,835,000 in 2022.

The Hospital irrevocably pledged to levy and collect taxes annually in sufficient amounts to pay the bond principal and interest payments when due. Such collections are reported as noncurrent cash and investments.

The recorded balance at the time of issuance included a bond premium of \$3,585,459, which is being amortized using the effective interest method over the term of the bonds. The unamortized bond premium balance was \$0 and \$1,699,987 at December 31, 2019 and 2018, respectively.

As part of the advance refunding, a loss on refunding was incurred, considering the refunding of the 2004 bonds, actual cash received as part of the issuance, and unamortized premiums and issuance costs related to the 2004 and 2012 bonds. The loss on refunding in the original amount of \$2,070,898 is being amortized using the effective interest rate method through 2028. The unamortized loss on refunding balance was \$967,484 and \$1,075,987 at December 31, 2019 and 2018, respectively.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### **Note 8: Long-Term Liabilities** (Continued)

#### 2014 Refunding LTGO Bonds

LTGO bonds of \$12,090,000, dated November 12, 2014, were issued to advance refund and in substance defease the principal amounts totaling \$9,190,000 of the 2005 limited tax general obligation bonds plus additional funds. The 2005 bonds were used to finance capital improvements for the Hospital and advance refund 1996 limited tax general obligation bonds.

Interest is payable semiannually on June 1 and December 1, beginning December 1, 2014, at rates that range from 2% to 5%. The bonds mature in principal installments ranging from \$320,000 in 2014 to \$960,000 in 2033. Scheduled maturities on and after December 1, 2023, will be subject to redemption at the option of the Hospital on and after December 1, 2023, in whole or in part, at par plus accrued interest to the date of redemption.

The Hospital irrevocably pledged to levy and collect taxes annually in sufficient amounts to pay the bond principal and interest payments when due. Such collections are reported as noncurrent cash and investments.

The recorded balance at the time of issuance included a bond premium of \$752,738, which is being amortized using the effective interest method over the term of the bonds. The unamortized bond premium balance was \$561,417 and \$599,054 at December 31, 2019 and 2018, respectively.

As part of the advance refunding, a loss on refunding was incurred, considering the refunding of the 2005 bonds, actual cash received as part of the issuance, and unamortized premiums and issuance costs related to the 2005 and 2014 bonds. The loss on refunding in the original amount of \$393,417 is being amortized using the effective interest rate method through 2033. The unamortized loss on refunding balance was \$294,651 and \$314,404 at December 31, 2019 and 2018, respectively.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### **Note 8: Long-Term Liabilities** (Continued)

#### Community Development Entity (CDE) Loans

In August 2011, IHMP secured financing utilizing the New Market Tax Credit program. Washington Federal is the tax credit investor with NDC New Markets Investment LXIII, LLC and Kitsap County NMTC Subsidiary Allocatee Three, LLC. The terms of the CDE loans are as follows:

NDC CDE Loan A: Original amount of \$5,373,200; interest-only payments at 4.829% through August 2018, the loan was paid off in August 2018.

NDC CDE Loan B: Original amount of \$1,770,800; interest-only payments at 4.829% through August 2018; principal payment of \$114,000 was made in August 2018 with the remainder of the debt forgiven.

Kitsap CDE Loan C: Original amount of \$2,121,000; interest-only payments at 4.829% through August 2018, the loan was paid off in August 2018.

Kitsap CDE Loan D: Original amount of \$729,000; interest-only payments at 4.829% through August 2018; principal payment of \$30,000 was made August 2018 with the remainder of the debt forgiven.

#### Capital Lease Obligations

The Hospital has entered into several agreements for the lease of various pieces of medical equipment. The agreements expire on various dates through 2025. The interest rates vary from 3.79% to 6.65%. Depreciation of the assets recorded under capital leases is included in depreciation in the accompanying statements of revenue, expenses, and changes in net position.

Equipment under capital lease obligations as of December 31 is as follows:

	<u>2019</u>	<u>2018</u>
Historical cost	\$ 696,635	\$ 1,032,302
Less: Accumulated amortization	<u>305,680</u>	<u>194,156</u>
Equipment acquired under capital lease obligations - Net	<u>\$ 390,955</u>	<u>\$ 838,146</u>

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

### Note 8: Long-Term Liabilities (Continued)

Aggregate future annual principal and interest payments related to long-term debt and capital lease obligations are as follows:

	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2020	\$ 3,110,000	\$ 1,933,638	\$ 175,617	\$ 11,705
2021	3,245,000	1,846,223	123,850	4,132
2022	3,425,000	1,723,114	10,269	697
2023	3,720,000	1,484,111	10,665	301
2024	3,885,000	1,382,158	2,121	11
2025-2029	18,930,000	5,285,129	-	-
2030-2034	9,860,000	3,106,151	-	-
2035-2039	11,790,000	1,171,558	-	-
Total long-term debt and capital lease obligations	<u>\$ 57,965,000</u>	<u>\$ 17,932,082</u>	<u>\$ 322,522</u>	<u>\$ 16,846</u>

### Note 9: Line of Credit

The Hospital entered into a secured revolving line of credit agreement dated February 1, 2018, with a maximum principal amount of up to \$4,000,000 and an interest rate equal to the three month London Inter-bank Offer Rate plus 2.00%, resetting every three months on January 1, April 1, July 1, and October 1 of each year. Interest-only payments are due quarterly, with principal due at maturity on February 1, 2020. The lender has the option to extend the maturity an additional 12 months on each anniversary of the closing date. There was \$1,725,000 in outstanding borrowings on the line of credit as of December 31, 2019.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

### Note 10: Net Patient Service Revenue

Net patient service revenue consisted of the following for the years ended December 31:

	2019	2018
Gross patient service revenue	\$ 240,956,748	\$ 230,662,942
Less: Charity care/financial assistance	755,934	503,872
	<u>240,200,814</u>	<u>230,159,070</u>
Totals		
Contractual adjustments:		
Medicare	82,062,604	77,964,473
Medicaid	17,025,952	15,831,180
Other	42,276,769	42,779,942
	<u>141,365,325</u>	<u>136,575,595</u>
Total contractual adjustments		
Provision for bad debts	1,856,639	1,535,434
	<u>1,856,639</u>	<u>1,535,434</u>
Net patient service revenue	<u>\$ 96,978,850</u>	<u>\$ 92,048,041</u>

Gross patient service revenue by payor was as follows for the years ended December 31:

	2019	2018
Medicare	53 %	52 %
Medicaid	11 %	11 %
Other government	10 %	12 %
Other third-party payors	25 %	24 %
Self-pay	1 %	1 %
	<u>100 %</u>	<u>100 %</u>
Totals		



# **Skagit County Public Hospital District No. 2 d/b/a Island Hospital**

## **Notes to Financial Statements**

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### **Note 11: Charity Care/Financial Assistance**

The Hospital provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. Consistent with the mission of the Hospital, health care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources.

Patients who meet certain criteria for charity care/financial assistance, generally based on federal poverty guidelines, are provided care based on criteria defined in the Hospital's charity care/financial assistance policy. The Hospital maintains records to identify and monitor the level of charity care/financial assistance it provides. The amount of charges foregone for services and supplies furnished under the Hospital's charity care/financial assistance policy aggregated \$755,934 and \$503,872 for the years ended December 31, 2019 and 2018, respectively.

### **Note 12: Pension Plan and Deferred Compensation**

#### **Pension Plan**

The Hospital has a defined contribution 401(a) and 403(b) plan that covers all of its eligible full-time benefited employees, called the Island Hospital Employees' Pension Plan (the "Plan"). The plan also includes a 457 plan for casual/part-time employees. The Plan is administered by VALIC Retirement Services Company. Plan terms are established and amended under the authority of the Hospital.

For the 401(a) plan, employees who have completed 18 months of employment, attained the age of 21, and are participating in the 403(b) plan are generally eligible to receive a 401(a) contribution under the Plan. The Plan provides for employer contributions based on a percentage of employee length of service. For eligible employees who defer at least 5% of their compensation, the Hospital makes contributions ranging from 6.1% to 6.5%. Employee contributions to the Plan were \$3,143,645 and \$3,050,890 for the years ended December 31, 2019 and 2018, respectively. The Hospital recognized pension plan expenses of \$1,657,219 and \$1,676,395 for the years ended December 31, 2019 and 2018, respectively.

All participating employees are 100% vested upon participation.

The Hospital has accrued a liability for pension contributions of \$80,875 and \$72,969 as of December 31, 2019 and 2018, respectively.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### **Note 12: Pension Plan and Deferred Compensation** (Continued)

#### **Deferred Compensation**

The Hospital provides the Skagit County Public Hospital District No. 2 Supplemental Executive Retirement Plan (SERP), a 457(f) deferred compensation plan, to key employees under Section 457 of the Internal Revenue Code. Key employees are those specifically designated by the Hospital who qualify as a member of the "select group of management or highly compensated employees" for purposes of the Employee Retirement Income Security Act of 1974 and enter into a salary reduction agreement. This plan is administered by a compensation committee formed by the Hospital. The deferred compensation plan is funded by Hospital contributions of 7.64% of participating employees' compensation.

Participating employees are vested in the SERP upon the earlier of (a) completion of five full calendar years of service under the SERP, (b) reaching normal retirement age, (c) death, or (d) permanent disability. Any participant not vested who ceases to be an employee and ceases to earn benefit service shall forfeit the participant's right to benefits under the SERP. Forfeited amounts, if any, are used first to pay the SERP's administrative expenses, then to reduce the current-period contribution of the employer.

Hospital contributions to the plan were \$85,378 for 2019 and \$89,194 for 2018.

### **Note 13: Other Postemployment Benefits**

The Hospital participates in an agent multiple-employer other postemployment benefits plan. In accordance with RCW 41.05.085 and RCW 41.05.022, eligible Hospital retirees and spouses are entitled to subsidies associated with postemployment health benefits provided through the Public Employee Benefits Board (PEBB). The PEBB was created within the Washington State Health Care Authority to administer medical, dental, and life insurance plans for public employees and retirees.

The subsidies provided by PEBB include the following:

- Explicit medical subsidy for post-65 retirees and spouses
- Implicit medical subsidy
- Implicit dental subsidy

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

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### Note 13: Other Postemployment Benefits (Continued)

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

As of the valuation date, the membership includes 571 active participants, 42 retirees and surviving spouses, and 19 spouses of current retirees.

#### Total OPEB Liability

	2019	2018
Total OPEB liability	\$ 7,733,619	\$ 11,897,237
Covered employee payroll	38,393,756	42,904,547
Total OPEB liability as a % of covered employee payroll	20.14 %	27.73 %

The total OPEB liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rates below, and then projected to the measurement dates. There have been no significant changes between the valuation date and fiscal year-ends.

	2019	2018
Valuation date	July 1, 2018	January 1, 2017
Measurement date	December 31, 2018	December 31, 2017

#### Discount Rate

	2019	2018
Discount rate	4.10 %	3.44 %
20-year tax exempt municipal bond yield	4.10 %	3.44 %

The discount rate was based on the Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years.

#### Other Key Actuarial Assumptions

Census date	July 1, 2018
Price inflation	2.75%
Salary increase	3.50%
Actuarial cost method	Entry Age

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

### Note 13: Other Postemployment Benefits (Continued)

#### Changes in Total OPEB Liability

	2019	2018
Beginning of year balance	\$ 11,897,237	\$ 9,863,713
Changes for the year:		
Service cost	1,060,645	927,542
Interest on total OPEB liability	443,914	406,108
Effect of economic/demographic gains or losses	(552,508)	-
Effect of assumptions changes or inputs	(5,007,941)	796,063
Expected benefit payments	(107,728)	(96,189)
End of year balance	<u>\$ 7,733,619</u>	<u>\$ 11,897,237</u>

#### Sensitivity Analysis

The following presents the total OPEB liability of the Hospital, as of the measurement date, calculated using the discount rates of 4.10% and 3.44%, as well as what the Hospital's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	2019	2018
1% decrease	3.10 %	2.44 %
Total OPEB liability	\$ 9,355,146	\$ 14,700,648
Discount rate	4.10 %	3.44 %
Total OPEB liability	\$ 7,733,619	\$ 11,897,237
1% increase	5.10 %	4.44 %
Total OPEB liability	\$ 6,469,270	\$ 9,742,277

The following presents the total OPEB liability of the Hospital, as of the measurement date, calculated using the current healthcare cost trend rates, as well as what the Hospital's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates. Health care trend rates are disclosed on page 47.

	2019	2018
1% decrease	\$ 6,274,769	\$ 9,379,479
Current trend rate	\$ 7,733,619	\$ 11,897,237
1% increase	\$ 9,691,219	\$ 15,345,936

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

### Note 13: Other Postemployment Benefits (Continued)

#### OPEB Expense

For the years ended December 31, 2019 and 2018, the Hospital recognized OPEB expense of \$867,331 and \$1,261,698, respectively.

#### Schedule of Deferred Inflows and Deferred Outflows of Resources

At December 31, 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 498,341
Assumption changes or inputs	-	4,181,329
Benefit payments subsequent to the measurement date	127,862	-
Total	<u>\$ 127,862</u>	<u>\$ 4,679,670</u>

At December 31, 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Assumption changes or inputs	\$ 371,413	\$ -
Benefit payments subsequent to the measurement date	107,728	-
Total	<u>\$ 479,141</u>	<u>\$ -</u>

Economic/demographic (gains)/losses and assumption changes or inputs are recognized over the average remaining service life for all active and inactive members.

\$127,862 reported as deferred outflows related to other postemployment benefits resulting from the Hospital's benefit payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending December 31, 2020.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### Note 13: Other Postemployment Benefits (Continued)

Other amounts currently reported as deferred outflows of resources and deferred inflows of resources related to other postemployment benefits will be recognized in OPEB expense as follows:

2020	\$ (509,366)
2021	(509,366)
2022	(509,366)
2023	(509,366)
2024	(509,366)
Thereafter	(2,132,840)

Note that additional future deferred inflows and outflows of resources may impact these numbers.

### Demographic Assumptions

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

The assumed disability rates under PERS tier 2 and 3 from the 2018 actuarial valuation are less than 0.1% for ages 50 and below and continue to be low after that. The disability rate was assumed to be 0% for all ages.

For service retirement, post-2013, plans 2 and 3 were used, with less than 30 years of service assumptions from the 2018 actuarial valuation for PERS.

For mortality, the assumptions from the 2018 actuarial valuation for PERS (RP-2000 base mortality table, adjusted by -1 year for both males and females, with generational mortality adjustments using projection scale BB) were used.

For other termination of employment, the assumptions from the 2018 actuarial valuation for PERS were used, but no less than 2% per year.

*Retirement eligibility:* Members are eligible for service retirement at age 55 with 20 years of service or age 65 with 5 years of service.

*Election assumption:* 40% of members are assumed to elect medical benefits upon retirement. 35% of members are assumed to elect dental benefits upon retirement.

*Election assumption (spouses):* 40% of members are assumed to enroll eligible spouses as of the retirement date.

*Medicare coverage:* 100% of members are assumed to enroll in Medicare, once eligible, after initial participation.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### Note 13: Other Postemployment Benefits (Continued)

#### Demographic Assumptions (Continued)

*Spouse age:* A male member is assumed to be three years older than his spouse, and female member is assumed to be one-year younger than her spouse.

*Selection of carrier:* All current and future retirees who elect medical and dental coverage are assumed to elect carriers based on the weighted average of selection of carriers by PEBB retirees.

#### Health Cost Trend

The health cost trend assumptions used in this valuation, assumed for both current and future retirees, are as follows:

Year Ending	Pre-65 Claims and Contributions	Post-65 Claims	Post-65 Contributions
6/30/2019	6.80 %	3.60 %	1.10 %
6/30/2020	6.30	7.60	9.30
6/30/2021	6.10	7.60	12.40
6/30/2022	5.30	5.20	6.80
6/30/2025	5.50	5.30	5.50
6/30/2035	6.30	5.40	5.50
6/30/2045	6.00	5.60	5.70
6/30/2055	5.60	5.80	5.90
6/30/2065	5.40	5.50	5.50
6/30/2075	4.60	4.70	4.70
6/30/2085	4.50	4.60	4.60
6/30/2095+	4.50	4.70	4.70

#### Premium Levels

The July 1, 2018 assumed annual medical retiree contributions used in the valuation are displayed below. These represent a weighted average of July 1, 2018 - June 30, 2019 PEBB retiree contributions by medical plan, based on overall PEBB current retiree medical plan election. These contributions are assumed for both current retirees and future retirees. Contributions are the same for retirees and spouses of retirees. The contributions exclude the administration charge, the state surcharge reduction, the Limeade administration charge, the Consumer Directed Health Plan employer contribution, the Health Savings Account (HSA) administration fee, and the HSA wellness fee, as these are direct pass-through expenses that are 100% paid by retirees.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

### Note 13: Other Postemployment Benefits (Continued)

#### Premium Levels (Continued)

Medical plan:	Subscriber or Spouse	
	Non-Medicare	Medicare
Weighted average based on current PEBB retirees	\$ 8,052.58	\$ 3,180.06

The July 1, 2018 assumed annual dental retiree contributions are displayed below. These represent a weighted average of July 1, 2018 - June 30, 2019 PEBB retiree contributions by dental plan, based on overall PEBB current retiree dental plan election. These contributions are assumed for both current retirees and future retirees.

Dental plan:	Subscriber or Spouse	
	Non-Medicare	Medicare
Weighted average based on current PEBB retirees	\$ 547.17	\$ 547.17

#### Participant Data

The following participant data as of the valuation date was used:

	Attained Age At		Count
	Hire	Valuation	
Actives	39.3	46.3	571
Retirees	n/a	70.6	42

### Note 14: Contingencies

#### Malpractice

The Hospital has professional liability insurance coverage with Washington Casualty Company. The policy provides protection on a "claims made" basis whereby only malpractice claims reported to the insurance carriers in the current year are covered by the current policies.



# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### **Note 14: Contingencies (Continued)**

#### **Malpractice (Continued)**

If there are unreported incidents that result in a malpractice claim in the current year, such claims will be covered in the year the claim is reported to the insurance carriers only if the Hospital purchases claims-made insurance in that year or the Hospital purchases “tail” insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of a claims-made policy.

The current malpractice insurance provides \$1,000,000 per claim of primary coverage with a \$5,000,000 annual aggregate limit plus \$10,000,000 annual excess coverage per claim with a \$10,000,000 annual aggregate. There are no significant deductibles or coinsurance clauses.

A liability of \$328,655 has been accrued at December 31, 2019, for future coverage for acts occurring in this or prior years. Also, it is possible that claims may exceed coverage available in any given year.

#### **Risk Management**

The Hospital 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 illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this coverage in any of the three preceding years.

#### **Health Care Reform**

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States’ health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. The federal health care reform legislation does not affect the financial statements for the years ended December 31, 2019 and 2018.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### Note 15: Tax Levy

The Hospital is permitted to levy an annual expense fund levy on the taxable property within the district without a vote of the taxpayers. In addition, taxes are levied annually on the taxable property within the district to service bond principal and interest payments on the 2012 UTGO Bonds, 2014 LTGO Bonds, and 2018 LTGO Bonds. Taxes to finance debt service on the UTGO bonds may be levied without limit as to rate and amount. The Hospital records property taxes on the accrual method.

Property taxes are levied by the County on the Hospital's behalf on January 1 and are intended to finance the Hospital's activities of the same calendar year. Amounts levied are based on assessed property values as of the preceding May 31. The state assessed a value base for the taxing district of approximately \$6.3 billion with a maximum levy rate of 0.8696 and 0.9316 per \$1,000 assessed value for the years ended December 31, 2019 and 2018, respectively.

The property tax calendar includes these dates:

Levy date	January 1
Lien date	January 1
Tax bill mailed	February 14
First installment payment due	April 30
Second installment payment due	October 31

Property taxes are considered delinquent on the day following each payment due date, and interest must be paid on delinquent taxes. No allowance for uncollectible taxes receivable was considered necessary at the statements of net position dates.

The Hospital received approximately 5.2% and 5.3% of its financial support from property taxes in 2019 and 2018. These funds were available for the following:

	2019	2018
Maintenance and operations	\$ 2,978,705	\$ 2,896,266
Debt service	2,538,848	2,440,728
Total tax levy	<u>\$ 5,517,553</u>	<u>\$ 5,336,994</u>

### Note 16: Investment in Joint Venture

#### Investment in Medical Information Network-North Sound

The Hospital has an investment in Medical Information Network-North Sound (MIN-NS) to develop, implement, and maintain an electronic health record system for health care providers in Skagit County. The Hospital has a 50% interest in the joint venture. The interest is accounted for using the equity method of accounting.

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Notes to Financial Statements

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### Note 16: Investment in Joint Venture (Continued)

#### Investment in Medical Information Network-North Sound (Continued)

The operations of MIN-NS have resulted in a loss on investment in joint venture of \$40,203 and \$0 for the years ended December 31, 2019 and 2018, respectively, and a residual investment of \$0. Upon withdrawal, members are required to fund their respective portion of current year losses, if any, incurred by the joint venture. This joint venture is closed as of March 31, 2019.

Copies of the MIN-NS financial statements are available upon request.

### Note 17: Foundation

The Island Hospital Foundation (the "Foundation") is a nonprofit entity that was organized to solicit and accept charitable contributions in order to provide support for the Hospital. The Foundation's Board of Directors is separate from the Hospital's. The Foundation provided contributions to the Hospital for various capital and other projects in the amounts of \$1,429,436 and \$971,078 during the years ended December 31, 2019 and 2018, respectively.

The Foundation's financial position was as follows at December 31:

	2019	2018
Assets	<u>\$ 3,245,658</u>	<u>\$ 2,931,028</u>
Liabilities	\$ 70,374	\$ 61,138
Net assets	<u>3,175,284</u>	<u>2,869,890</u>
Liabilities and net assets	<u>\$ 3,245,658</u>	<u>\$ 2,931,028</u>

### Note 18: Subsequent Events

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and known now as COVID-19, the outbreak has had a significant impact worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. As of the date of issuance of the financial statements, the Hospital continues to monitor the situation and evaluate its potential impact. No impairments were recorded as of the statement of net position date as no triggering events or changes in circumstances had occurred as of year-end; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Hospital's results of operations, cash flows and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimable at this time.

## **Required Supplementary Information**

# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

## Required Supplementary Information

### Schedule of Changes in Total OPEB Liability and Related Ratios - Other Postemployment Benefits

Total OPEB Liability	2019	2018	2017
Service cost	\$ 1,060,645	\$ 927,542	\$ 949,231
Interest on total OPEB liability	443,914	406,108	356,394
Effect of economic/demographic gains or losses	(552,508)	-	-
Effect of assumption changes or inputs	(5,007,941)	796,063	(431,143)
Expected benefit payments	<u>(107,728)</u>	<u>(96,189)</u>	<u>(88,319)</u>
Net change in total OPEB liability	(4,163,618)	2,033,524	786,163
Total OPEB liability, beginning	<u>11,897,237</u>	<u>9,863,713</u>	<u>9,077,550</u>
Total OPEB liability, ending	<u><u>\$ 7,733,619</u></u>	<u><u>\$ 11,897,237</u></u>	<u><u>\$ 9,863,713</u></u>

GASB Statement 75 requires this information to be provided for 10 years. Because this is the third year of implementation, 10 years is not available.

#### Notes to Schedule

There are no changes of benefit terms.

The following assumption changes were made for the July 1, 2018 valuation:

- The trend and claims costs assumptions were updated to reflect changes made for the July 1, 2018 OPEB valuation performed by the Office of the State Actuary.
- The discount rate was updated to reflect the Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years as of December 27, 2018 and December 26, 2019.
- The price inflation was updated and is consistent with the Office of the State Actuary for Public Employees Benefit Board (PEBB) price inflation update. The real wage growth remained unchanged and the general wage growth increases changed as the price inflation changed.
- The medical and dental election assumptions were updated based on a review of public health district's experience.
- As of the December 31, 2019 measurement date, the trend was updated to remove the effects of the excise tax for high cost or "Cadillac" health plans and to remove the Health Insurer fee from 2021 onwards. This was done to reflect the H.R. 1865 Further Consolidated Appropriations Act of 2020.

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters**

Board of Commissioners  
Skagit County Public Hospital District No. 2  
d/b/a Island Hospital  
Anacortes, Washington

We have audited, in accordance with auditing standards generally accepted in the United States 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 Skagit County Public Hospital District No. 2 d/b/a Island Hospital (the "Hospital"), which comprise the statements of net position as of December 31, 2019, and the related statements of revenue, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 28, 2020.

### **Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital'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 determination of financial statement amounts. 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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Wipfli LLP*

Wipfli LLP  
April 28, 2020  
Spokane, Washington

