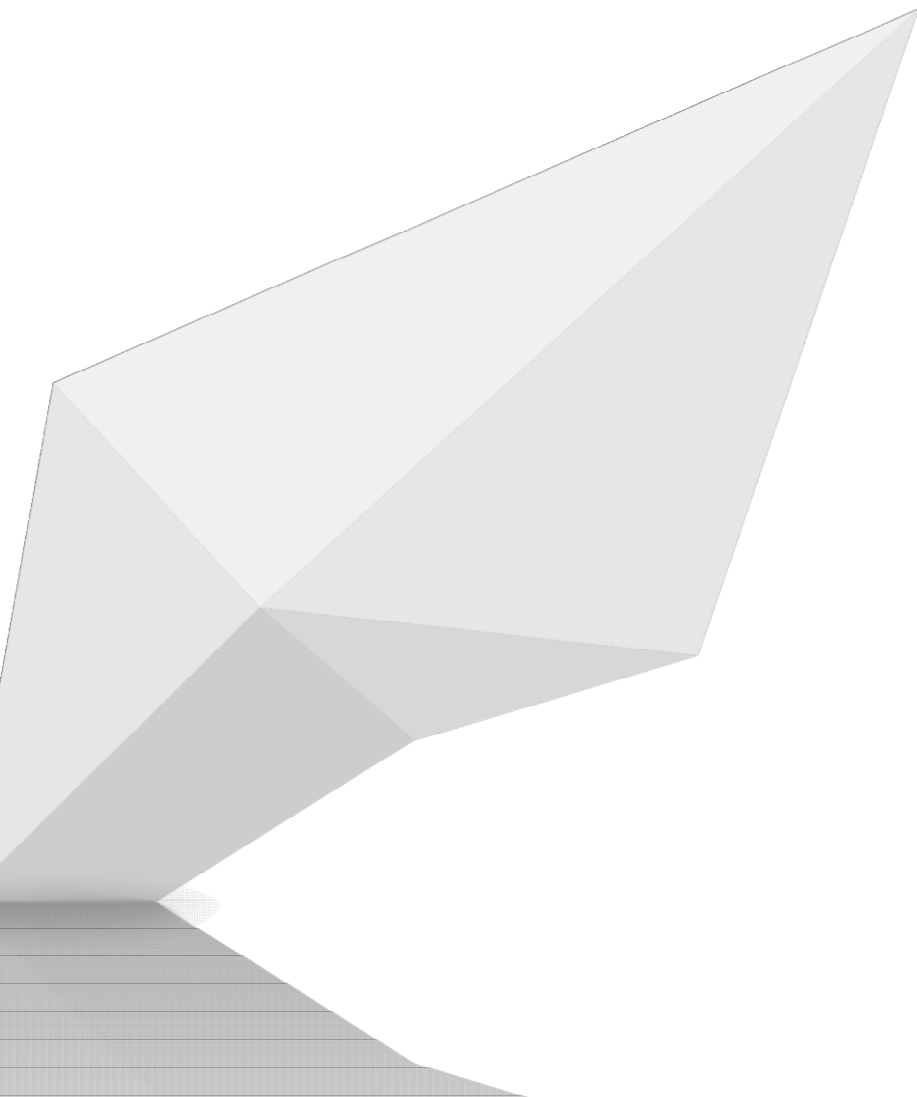


# Skagit County Public Hospital District No. 2 d/b/a Island Hospital

Financial Statements and Required Supplementary  
Information

Years Ended December 31, 2021 and 2020



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

Years Ended December 31, 2021 and 2020

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**Table of Contents**

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	4
<b>Financial Statements</b>	
Statements of Net Position.....	12
Statements of Revenue, Expenses, and Changes in Net Position.....	14
Statements of Cash Flows.....	15
Notes to Financial Statements.....	17
<b>Required Supplementary Information</b>	
Schedule of Changes in Total OPEB Liability and Related Ratios - Other Postemployment Benefits.....	54
<b>Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....</b>	<b>55</b>

## **Independent Auditor's Report**

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

### ***Report on the Audit of the Financial Statements***

#### ***Opinion***

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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Skagit County Public Hospital District No. 2 d/b/a Island Hospital as of December 31, 2021 and 2020, and the changes in its net position and cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Skagit County Public Hospital District No. 2 d/b/a Island Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Skagit County Public Hospital District No. 2 d/b/a Island Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Skagit County Public Hospital District No. 2 d/b/a Island Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Skagit County Public Hospital District No. 2 d/b/a Island Hospital's ability to continue as a going concern for a reasonable period of time.

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

## ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of changes in total other post-employment benefit liability and related ratios listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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 27, 2022 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Skagit County Public Hospital District No. 2 d/b/a Island 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

Spokane, Washington

April 27, 2022

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

## Management's Discussion and Analysis

December 31, 2021 and 2020

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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 5. 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, 2021 and 2020. 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, 2021 and 2020

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### Financial Highlights

For the fiscal year ended December 31, 2021, the Hospital reported a net operating loss of \$1,280,000, excess of revenue over expenses before capital contributions of \$3,570,000, and a margin of 3.4%. This compares to amounts in 2020 of a net operating loss of \$2,889,000, excess of revenue over expenses of \$9,718,000, and a margin of 10.4%.

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

- In March 2020, the World Health Organization characterized a novel strain of coronavirus, known as COVID-19, as a pandemic. On March 19th, the Hospital suspended all non-emergent surgeries and procedures in response to the governor's proclamation in order to conserve PPE supplies for healthcare workers. On March 23rd, the governor issued a stay at home order and closed all non-essential business for two weeks. The Hospital as an essential service remained open with reduced services and staff. Leadership worked to plan how to safely serve the needs of our community, as well as keep employees safe while providing services. In a relatively short period the Hospital implemented TeleHealth services to be able to continue to provide care for our community. A respiratory clinic was stood up to provide testing for our patients and our community in conjunction with State and County Health. Ninety percent of the Hospital services stayed closed for two months until the governor re-opened the State. In May 2020, the Hospital began slowly re-opening services however the pandemic continued into 2021. In January 2022, the Governor of Washington issued an emergency order to temporarily restrict non-urgent health care services, procedures and surgeries in order to address COVID-related state of crisis in the Hospital. This impacted a majority of the departments in the hospital. The proclamation was lifted in February 2022 and all hospital services resumed.
- The Hospital received \$7,415,000 in CARES Act funding in April and May 2020, to be used to offset lost revenues and other cost related to the COVID-19 pandemic.
- The Hospital also asked for and received \$14,845,000 in Medicare Advance Payments that began to be paid back starting in June of 2021.
- In May 2020, Elise Cutter was promoted to Chief Operating Officer of the Hospital and in January of 2021, Julie Norton Stewart was selected as Chief Financial Officer. Julie is an accomplished professional with almost 20 years of healthcare experience in the healthcare insurance, delivery and post-acute areas.
- In September 2020, Denise Jones, Chief Patient Care Executive, left the Hospital after 17 years of service and in September of 2020, Carol Northup joined the Hospital as Chief Nursing Officer. Carol brings over 22 years of nursing and leadership experience, as she became our next nurse executive.

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

## Management's Discussion and Analysis (Continued)

December 31, 2021 and 2020

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### Financial Highlights (Continued)

- In December of 2021, Charles Hall stepped down as CEO and Elise Cutter was approved by the Board as the new CEO. Elise brings 20 years of healthcare experience to her position and was formally the CFO for 10 years.
- In October 2020, the Hospital signed a lease on property at 2405 Commercial Avenue. The Hospital did an environmental assessment on the building and found that it was unsuitable for immediate occupation. The Hospital terminated the lease.
- In October 2020, the Hospital was selected by Orcas Island Health Care District to partner with them in running a primary care clinic on Orcas Island. The clinic opened on the island in April 2021.
- In 2020 and 2021, 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, urology, and obstetrics and gynecology.
- The Hospital participates in an agent multiple-employer other postemployment benefits plan (OPEB). In 2021 the Hospital worked with Parker, Smith and Feek to seek options outside of PEBB. Only one insurance company responded to the RFP. It was decided at this time that it was not in the best interest of the hospital to leave PEBB due to the financial impact and the limited plans available for the employees.



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

## Management's Discussion and Analysis (Continued)

December 31, 2021 and 2020

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### Financial Highlights (Continued)

- The Hospital received \$500,000 in 2010 and \$100,000 from 2011 through 2020 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
2020	821,953	384,127
2021	288,457	467,555

- 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 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. The Hospital has extended this line of credit through February 2022.

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

## Management's Discussion and Analysis (Continued)

December 31, 2021 and 2020

### Net Position

The summarized statements of net position as of December 31, 2021, 2020, and 2019, are as follows:

	2021	2020	2019
	(In Thousands)		
Current assets:			
Cash and cash equivalents	\$ 56,912	\$ 57,980	\$ 31,209
Patient accounts receivable - Net	9,344	7,886	9,231
Other current assets	3,866	4,015	3,453
Total current assets	70,122	69,881	43,893
Capital assets - Net	76,897	79,177	81,505
Other assets	12,201	11,258	11,712
Deferred outflows of resources	1,169	1,285	1,390
Total assets and deferred outflows of resources	\$ 160,389	\$ 161,601	\$ 138,500
Current liabilities	\$ 29,989	\$ 22,657	\$ 16,424
Long-term debt - Net	48,683	52,164	55,563
Refundable advance - Net of current portion	-	9,278	-
Total OPEB liability	10,627	10,287	7,734
Other liabilities	457	547	592
Total liabilities	89,756	94,933	80,313
Deferred inflows of resources - OPEB	2,877	2,621	4,680
Net position	67,756	64,047	53,507
Total liabilities, deferred inflows of resources, and net position	\$ 160,389	\$ 161,601	\$ 138,500

Total assets and deferred outflows of resources decreased by \$1,213,000 in 2021 and increased by \$23,101,000 in 2020. Current liabilities increased by \$7,332,000 in 2021 and increased by \$6,231,000 in 2020.

Long-term debt decreased by \$3,481,000 in 2021 and decreased by \$3,399,000 in 2020.

The Hospital's net position is the difference between its assets and deferred outflows of resources, and its liabilities and deferred inflows of resources reported in the statements of net position. The Hospital's net position increased by \$3,708,000, or 5.8%, in 2021 and increased by \$10,540,000, or 19.7%, in 2020.

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

## Management's Discussion and Analysis (Continued)

December 31, 2021 and 2020

### 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, 2021, 2020, and 2019, are as follows:

	2021	2020	2019
	(In Thousands)		
Operating revenue:			
Net patient service revenue	\$ 104,588	\$ 92,362	\$ 96,979
Other operating revenue	1,421	734	792
Total operating revenue	106,009	93,096	97,771
Operating expenses:			
Salaries, wages, and benefits	60,393	52,509	53,275
Professional and physician fees	4,792	4,305	5,080
Supplies	23,486	22,523	22,932
Purchased services	10,578	9,219	9,258
Depreciation and amortization	5,282	4,898	4,575
Other	2,758	2,532	3,322
Total operating expenses	107,289	95,986	98,442
Operating loss	(1,280)	(2,890)	(671)
Nonoperating revenue - Net	4,851	12,608	5,061
Excess of revenue over expenses	3,571	9,718	4,390
Capital contributions	138	822	898
Increase in net position	3,709	10,540	5,288
Net position at beginning of year	64,047	53,507	48,219
Net position at end of year	\$ 67,756	\$ 64,047	\$ 53,507

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

## Management's Discussion and Analysis (Continued)

December 31, 2021 and 2020

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

#### Sources of Revenue

Net patient service revenue increased by \$12,226,000, or 13.2%, in 2021. This was partly a result of the recovery from the impact of service closures that occurred in 2020 due to the COVID-19 pandemic. The collection percentage for the Hospital was 40% and 41% in 2021 and 2020.

The percentage of revenue by payor class based on total patient service revenue for the years ended December 31, 2021, 2020, and 2019, was as follows:

	2021	2020	2019	2020 to 2021 Change
Medicare and Medicare Managed Care	52.8 %	52.3 %	53.0 %	0.5 %
Medicaid and Medicaid Managed Care	11.0 %	10.2 %	10.6 %	0.8 %
Other government	10.4 %	11.2 %	10.4 %	-0.8 %
Commercial	25.1 %	25.2 %	24.8 %	-0.1 %
Self-pay	0.7 %	1.1 %	1.2 %	-0.4 %
Totals	100.0 %	100.0 %	100.0 %	

Bad debt expense increased by \$215,000, or 12%, in 2021 and decreased by \$110,000, or 6%, in 2020.

Charity care/financial assistance write-offs decreased by \$544,000, or 48%, in 2021 and increased by \$377,000, or 50%, in 2020.

#### Operating Expenses

Total operating expenses in 2021 increased by \$11,303,000, or 11.78%, compared to a decrease of \$2,456,000, or 2.49%, in 2020. Primary factors in the change in total operating expenses were as follows:

- Salaries, wages, and benefits increased by 15% in 2021. Total FTEs increased to 540 in 2021 from 501 in 2020, as the Hospital adjusted staffing due to services resuming.
- Professional and physician fees expense increased by 11.3% in 2021 due to increased physician and consulting fees.
- Purchased services increased by 14.7% in 2021 due to increases in contract labor costs.
- Supplies increased by 4.2% in 2021, primarily due to increased oncology pharmaceutical supply expense.

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

## Management's Discussion and Analysis (Continued)

December 31, 2021 and 2020

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

The Washington State Auditor's Office reviewed the financial audit for the year ended December 31, 2020. The Hospital was issued a report with no findings. They also performed the compliance audit for 2018 and 2019 and no issues were noted.

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 January 19th – January 21st conducting their 2021 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 2020 has been filed and is awaiting final review. The Medicare cost report for 2021 will be filed in May 2022.

### **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, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Current assets:		
Cash and cash equivalents	\$ 56,912,402	\$ 57,980,337
Receivables:		
Patient - Net	9,343,660	7,886,405
Other	914,630	699,902
Prepaid expenses	1,230,770	1,143,281
Inventories	1,720,189	2,026,285
Noncurrent cash, cash equivalents, and investments required for current liabilities	-	145,055
	<b>70,121,651</b>	<b>69,881,265</b>
Noncurrent cash, cash equivalents, and investments, less current portion:		
Noncurrent cash and cash equivalents, less current portion	12,000,504	11,104,600
Noncurrent investments	199,618	152,258
	<b>12,200,122</b>	<b>11,256,858</b>
Capital assets:		
Nondepreciable capital assets	6,447,972	6,371,119
Depreciable capital assets - Net	70,448,750	72,806,156
	<b>76,896,722</b>	<b>79,177,275</b>
Deferred outflows of resources:		
Loss on refunding of long-term debt	1,005,622	1,133,879
Other post-employment benefits	163,496	151,423
	<b>1,169,118</b>	<b>1,285,302</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 160,387,613</b>	<b>\$ 161,600,700</b>

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

## Statements of Net Position (Continued)

December 31, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 3,435,269	\$ 3,361,289
Current portion of refundable advance	10,958,757	5,566,686
Accounts payable	6,770,282	5,168,244
Line of credit	862,500	1,725,000
Accrued payroll and related liabilities	5,538,117	5,041,768
Accrued interest	240,350	161,924
Estimated third-party payer settlements	1,472,611	1,299,879
Other current liabilities	157,580	331,096
Unearned revenue	552,684	-
	<b>29,988,150</b>	<b>22,655,886</b>
Long-term liabilities:		
Long-term debt and capital lease obligations, less current portion	48,682,988	52,164,377
Refundable advance - Net of current portion	-	9,277,810
Deferred compensation payable	141,481	202,841
Professional liability claims payable	315,252	344,015
Total OPEB liability	10,626,857	10,287,176
	<b>59,766,578</b>	<b>72,276,219</b>
	<b>89,754,728</b>	<b>94,932,105</b>
Deferred inflows of resources - Other post-employment benefits	2,877,341	2,621,468
Net position:		
Net investment in capital assets	24,778,465	23,651,609
Restricted, expendable	11,417,659	10,762,743
Unrestricted	31,559,420	29,632,775
	<b>67,755,544</b>	<b>64,047,127</b>
	<b>160,387,613</b>	<b>161,600,700</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 160,387,613</b>	<b>\$ 161,600,700</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, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Operating revenue:		
Net patient service revenue	\$ 104,587,510	\$ 92,361,620
Other operating income	1,420,748	734,387
Total operating revenue	106,008,258	93,096,007
Operating expenses:		
Salaries and wages	48,655,886	41,450,714
Employee benefits	11,737,325	11,058,628
Professional and physician fees	4,792,122	4,304,616
Supplies	23,485,780	22,523,163
Purchased services	10,577,906	9,218,872
Rents and leases	403,701	320,884
Depreciation and amortization	5,282,127	4,898,098
Other expenses	2,353,678	2,210,282
Total operating expenses	107,288,525	95,985,257
Operating loss	(1,280,267)	(2,889,250)
Nonoperating revenue (expense):		
Investment income	80,139	307,076
Interest expense	(2,059,944)	(2,121,971)
Tax levy	5,736,444	5,674,404
Grants and contributions - COVID-19	-	7,415,428
Other nonoperating revenue - Net	1,093,996	1,332,731
Total nonoperating revenue - Net	4,850,635	12,607,668
Income before capital contributions, excess of revenue over expenses	3,570,368	9,718,418
Capital contributions	138,049	821,953
Increase in net position	3,708,417	10,540,371
Net position, beginning of year	64,047,127	53,506,756
Net position, end of year	\$ 67,755,544	\$ 64,047,127



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

## Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 99,417,248	\$ 108,695,402
Payments to suppliers and contractors	(40,033,394)	(39,440,932)
Payments to and on behalf of employees	(59,422,101)	(51,249,536)
Receipts from other operating revenue	1,420,748	734,387
Net cash provided by operating activities	1,382,501	18,739,321
Cash flows from noncapital financing activities:		
Other nonoperating receipts, including grants and contributions	1,528,097	8,655,704
Net borrowings on line of credit	(862,500)	-
Net cash provided by noncapital financing activities	665,597	8,655,704
Cash flows from capital and related financing activities:		
Purchase of capital assets	(3,059,639)	(2,616,362)
Proceeds from sale of capital assets	3,132	36,170
Proceeds from issuance of long-term debt	-	-
Principal payments on long-term debt and capital lease obligations	(3,369,772)	(3,285,636)
Interest payments on long-term debt and capital lease obligations	(1,890,898)	(1,997,562)
Receipts from tax levy - Debt service	2,543,813	2,566,616
Receipts from tax levy - Maintenance and operations	3,189,992	3,110,685
Contributions for capital assets	138,049	821,953
Net cash used in capital and related financing activities	(2,445,323)	(1,364,136)
Cash flows from investing activities -		
Proceeds from interest and dividends on investments	80,139	307,076
Net increase (decrease) in cash and cash equivalents	(317,086)	26,337,965
Cash and cash equivalents - Beginning of year	69,229,992	42,892,027
Cash and cash equivalents - End of year	\$ 68,912,906	\$ 69,229,992

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

## Statements of Cash Flows (Continued)

Years Ended December 31, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,280,267)	\$ (2,889,250)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	5,282,127	4,898,098
Provision for bad debts	1,961,683	1,747,049
Changes in assets, liabilities, and related deferred inflows and outflows of resources:		
Receivables:		
Patient - Net	(3,418,938)	(402,091)
Other	(212,089)	(163,230)
Prepaid expenses	(87,489)	(183,437)
Inventories	306,096	(302,339)
Accounts payable	1,602,038	(229,469)
Accrued payroll and related liabilities	496,349	742,247
Estimated third-party payor settlements	172,732	144,328
Deferred compensation payable	(108,720)	45,765
Professional liability claims payable	(28,763)	15,360
Refundable advances	(3,885,739)	14,844,496
Deferred outflows of resources - OPEB	(12,073)	(23,561)
Deferred inflows of resources - OPEB	255,873	(2,058,202)
Total OPEB liability	339,681	2,553,557
Net cash provided by operating activities	\$ 1,382,501	\$ 18,739,321
<b>Reconciliation of cash and cash equivalents to the statements of net position:</b>		
Cash and cash equivalents in current assets	\$ 56,912,402	\$ 57,980,337
Noncurrent cash and cash equivalents	12,000,504	11,249,655
Total cash and cash equivalents	\$ 68,912,906	\$ 69,229,992
<b>Noncash capital and financing activities:</b>		
Loss on disposal of capital assets	-	9,342
<b>Supplemental cash flow information:</b>		
Taxes receivable	\$ 61,417	\$ 58,778

# 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 three primary care clinics: Island Primary Care - M Avenue, Island Primary Care - 24th Street, and Island Primary Care - Orcas.

#### 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.

#### 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.

# 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**

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.

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.

# 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)

#### **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 Hospital 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 and have a useful life greater than 3 years. 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 2021 and 2020, the Hospital determined that no evaluations of recoverability were necessary.

# 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

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### **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.

#### **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.



# 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)

#### **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.

#### **New Accounting Pronouncements**

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. The statement enhances the relevance and consistency of reporting for the Hospital's leasing activities by establishing requirements for lease accounting based on the principle that leases are financings of underlying right-to-use assets. A lessee is required to recognize a lease liability and intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. The effective date for this guidance was extended with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, and is effective for the Hospital's fiscal year ending December 31, 2022.

# 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:

	2021	2020
Cash on hand	\$ 3,450	\$ 3,450
Washington Federal Bank, depository accounts	244,666	56,731
Skagit County Treasurer's Office	2,809,774	1,259,865
Washington State Local Government Investment Pool	53,854,512	56,660,291
Total cash and cash equivalents	\$ 56,912,402	\$ 57,980,337

# 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 34 days at December 31, 2021.

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 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 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 (NAV) 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 9 am 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 9 am and 10 am, 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:

	2021	2020
Internally designated by Board:		
Cash and cash equivalents - Capital improvements	\$ 103,570	\$ 13,185
Accrued interest - Capital improvements	5,354	9,130
Washington State Local Government Investment Pool - Capital improvements	473,921	464,597
Investments - Deferred compensation arrangements	199,618	152,258
Total internally designated by the Board	782,463	639,170
Restricted:		
Restricted for the repayment of 2004/2012 Unlimited Tax General Obligation bonds:		
Cash and cash equivalents	200,472	195,349
Washington State Local Government Investment Pool	1,594,902	960,757
Totals	1,795,374	1,156,106
Restricted for the repayment of 2005/2014 Refunding Limited Tax General Obligation Bonds:		
Cash and cash equivalents	264,373	248,218
Washington State Local Government Investment Pool	5,318,656	4,719,833
Totals	5,583,029	4,968,051
Restricted for the repayment of new market tax credit loans - Washington State Local Government Investment Pool	1,757,572	1,755,735
Restricted proceeds of 2018 Limited Tax General Obligation Bonds to be used for capital improvements - Cash and cash equivalents	129	129
Restricted proceeds of 2018 Limited Tax General Obligation Bonds to be used for capital improvements - Washington State Local Government Investment Pool	510,272	509,739
Restricted proceeds of 2019 Limited Tax Federal Obligation Bonds to be used for capital improvements - Washington State Local Government Investment Pool	1,771,283	2,372,983
Total restricted	11,417,659	10,762,743
Total noncurrent cash, cash equivalents, and investments	12,200,122	11,401,913
Less - Current portion	-	145,055
Noncurrent cash, cash equivalents, and investments - Less current portion	\$ 12,200,122	\$ 11,256,858

# 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 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, 2021:

	Level 1	Level 2	Level 3	Total Assets at Fair Value
Money market funds	\$ 72,546	\$ -	\$ -	\$ 72,546
Mutual funds	95,949	-	-	95,949
Equities	31,123	-	-	31,123
Total investments at fair value	\$ 199,618	\$ -	\$ -	\$ 199,618

The Hospital's investments by level within the fair value hierarchy were as follows at December 31, 2020:

	Level 1	Level 2	Level 3	Total Assets at Fair Value
Money market funds	\$ 78,461	\$ -	\$ -	\$ 78,461
Mutual funds	55,051	-	-	55,051
Equities	18,746	-	-	18,746
Total investments at fair value	\$ 152,258	\$ -	\$ -	\$ 152,258

# 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, 2021 and 2020:

	2021	2020
Patients and their insurance carriers	\$ 6,434,552	\$ 5,986,300
Medicare	3,494,377	2,849,885
Medicaid	1,157,813	870,217
 Total patient accounts receivable, net of contractual allowances	 11,086,742	 9,706,402
Less - Allowance for doubtful accounts	1,743,082	1,819,997
 Patient receivables - Net	 \$ 9,343,660	 \$ 7,886,405

### 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. Effective April 1, 2021, Medicare reimbursement for existing provider-based rural health clinics affiliated with hospitals with less than 50 available beds is limited to a per-visit base rate inflated annually by the Medicare Economic Index. 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 (RACs) 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, 2021, 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, 2021, was as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
<b>Depreciable capital assets:</b>					
Land improvements	\$ 2,130,330	\$ -	\$ -	\$ -	\$ 2,130,330
Buildings and leasehold improvements	86,027,777	68,800	-	-	86,096,577
Fixed equipment	12,187,238	-	-	-	12,187,238
Major moveable equipment	35,566,384	2,913,986	-	(5,365,550)	33,114,820
<b>Total depreciable capital assets</b>	<b>135,911,729</b>	<b>2,982,786</b>	<b>-</b>	<b>(5,365,550)</b>	<b>133,528,965</b>
<b>Less accumulated depreciation for :</b>					
Land improvements	1,939,567	32,442	-	-	1,972,009
Buildings and leasehold improvements	28,961,589	2,057,183	-	-	31,018,772
Fixed equipment	7,761,916	480,377	-	-	8,242,293
Major movable equipment	24,442,501	2,712,125	-	(5,307,485)	21,847,141
<b>Total accumulated depreciation</b>	<b>63,105,573</b>	<b>5,282,127</b>	<b>-</b>	<b>(5,307,485)</b>	<b>63,080,215</b>
<b>Depreciable capital assets - Net</b>	<b>72,806,156</b>	<b>(2,299,341)</b>	<b>-</b>	<b>(58,065)</b>	<b>70,448,750</b>
<b>Nondepreciable capital assets:</b>					
Artwork	302,374	702	-	-	303,076
Land	5,148,055	-	-	-	5,148,055
Construction in progress	920,690	76,151	-	-	996,841
<b>Total nondepreciable capital assets</b>	<b>6,371,119</b>	<b>76,853</b>	<b>-</b>	<b>-</b>	<b>6,447,972</b>
<b>Capital assets - Net</b>	<b>\$ 79,177,275</b>	<b>\$ (2,222,488)</b>	<b>\$ -</b>	<b>\$ (58,065)</b>	<b>\$ 76,896,722</b>

Construction in progress at December 31, 2021, 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, 2020, was as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
<b>Depreciable capital assets:</b>					
Land improvements	\$ 2,130,330	\$ -	\$ -	\$ -	\$ 2,130,330
Buildings and leasehold improvements	83,797,707	13,368	2,216,702	-	86,027,777
Fixed equipment	8,906,256	81,600	3,199,382	-	12,187,238
Major movable equipment	34,491,299	1,563,056	161,508	(649,479)	35,566,384
<b>Total depreciable capital assets</b>	<b>129,325,592</b>	<b>1,658,024</b>	<b>5,577,592</b>	<b>(649,479)</b>	<b>135,911,729</b>
<b>Less accumulated depreciation for :</b>					
Land improvements	1,903,935	35,632	-	-	1,939,567
Buildings and leasehold improvements	27,031,299	1,930,290	-	-	28,961,589
Fixed equipment	7,381,666	380,250	-	-	7,761,916
Major movable equipment	22,537,062	2,551,926	-	(646,487)	24,442,501
<b>Total accumulated depreciation</b>	<b>58,853,962</b>	<b>4,898,098</b>	<b>-</b>	<b>(646,487)</b>	<b>63,105,573</b>
<b>Depreciable capital assets - Net</b>	<b>70,471,630</b>	<b>(3,240,074)</b>	<b>5,577,592</b>	<b>(2,992)</b>	<b>72,806,156</b>
<b>Nondepreciable capital assets:</b>					
Artwork	313,775	-	-	(11,401)	302,374
Land	5,147,765	290	-	-	5,148,055
Construction in progress	5,571,353	958,048	(5,577,592)	(31,119)	920,690
<b>Total nondepreciable capital assets</b>	<b>11,032,893</b>	<b>958,338</b>	<b>(5,577,592)</b>	<b>(42,520)</b>	<b>6,371,119</b>
<b>Capital assets - Net</b>	<b>\$ 81,504,523</b>	<b>\$ (2,281,736)</b>	<b>\$ -</b>	<b>\$ (45,512)</b>	<b>\$ 79,177,275</b>

# 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Capital assets - Net	\$ 76,896,722	\$ 79,177,275
Less:		
Long-term debt and capital lease obligations	<u>52,118,257</u>	<u>55,525,666</u>
Totals	<u>\$ 24,778,465</u>	<u>\$ 23,651,609</u>

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

## Notes to Financial Statements

### Note 7: Long-Term Liabilities

Long-term liabilities activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Long-term debt:					
<b>Direct placements -</b>					
2019 LTGO Bonds	\$ 11,930,000	\$ -	\$ (245,000)	\$ 11,685,000	\$ 255,000
2019 Refunding UTGO Bonds	15,750,000	-	(200,000)	15,550,000	205,000
2018 LTGO Bonds	14,440,000	-	(575,000)	13,865,000	585,000
2012 Refunding UTGO Bonds	3,545,000	-	(1,710,000)	1,835,000	1,835,000
2014 Refunding LTGO Bonds	9,190,000	-	(515,000)	8,675,000	545,000
Long-term debt before unamortized premiums	54,855,000	-	(3,245,000)	51,610,000	3,425,000
Unamortized premiums on long-term debt	523,780	-	(37,637)	486,143	-
<b>Total long-term debt</b>	<b>55,378,780</b>	<b>-</b>	<b>(3,282,637)</b>	<b>52,096,143</b>	<b>3,425,000</b>
Capital lease obligations - Medical equipment	146,886	-	(124,772)	22,114	10,269
<b>Total long-term debt and capital lease obligations</b>	<b>55,525,666</b>	<b>-</b>	<b>(3,407,409)</b>	<b>52,118,257</b>	<b>3,435,269</b>
Other long-term liabilities:					
Refundable advance - Net of current portion	9,277,810	-	(9,277,810)	-	-
Deferred compensation payable	202,841	77,572	(138,932)	141,481	-
Professional liability claims payable	344,015	10,080	(38,843)	315,252	-
OPEB liability	10,287,176	1,452,191	(1,112,510)	10,626,857	-
<b>Total other long-term liabilities</b>	<b>20,111,842</b>	<b>1,539,843</b>	<b>(10,568,095)</b>	<b>11,083,590</b>	<b>-</b>
<b>Total</b>	<b>75,637,508</b>	<b>\$ 1,539,843</b>	<b>\$ (13,975,504)</b>	<b>63,201,847</b>	<b>\$ 3,435,269</b>
Less current portion of long-term debt	3,361,289			3,435,269	
<b>Total long-term liabilities</b>	<b>\$ 72,276,219</b>			<b>\$ 59,766,578</b>	

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

## Notes to Financial Statements

### Note 7: Long-Term Liabilities (Continued)

Long-term liabilities activity for the year ended December 31, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Long-term debt:					
<b>Direct placements -</b>					
2019 LTGO Bonds	\$ 12,165,000	\$ -	\$ (235,000)	\$ 11,930,000	\$ 245,000
2019 Refunding UTGO Bonds	15,980,000	-	(230,000)	15,750,000	200,000
2018 LTGO Bonds	15,000,000	-	(560,000)	14,440,000	575,000
2012 Refunding UTGO Bonds	5,140,000	-	(1,595,000)	3,545,000	1,710,000
2014 Refunding LTGO Bonds	9,680,000	-	(490,000)	9,190,000	515,000
Long-term debt before unamortized premiums	57,965,000	-	(3,110,000)	54,855,000	3,245,000
Unamortized premiums on long-term debt	561,417	-	(37,637)	523,780	-
Total long-term debt	58,526,417	-	(3,147,637)	55,378,780	3,245,000
Capital lease obligations - Medical equipment	322,522	-	(175,636)	146,886	116,289
Total long-term debt and capital lease obligations	58,848,939	-	(3,323,273)	55,525,666	3,361,289
Other long-term liabilities:					
Refundable advance - Net of current portion	-	9,277,810	-	9,277,810	-
Deferred compensation payable	263,079	84,590	(144,828)	202,841	-
Professional liability claims payable	328,655	15,360	-	344,015	-
OPEB liability	7,733,619	2,681,419	(127,862)	10,287,176	-
Total other long-term liabilities	8,325,353	12,059,179	(272,690)	20,111,842	-
Total	67,174,292	\$ 12,059,179	\$ (3,595,963)	75,637,508	\$ 3,361,289
Less current portion of long-term debt	3,285,617			3,361,289	
Total long-term liabilities	\$ 63,888,675			\$ 72,276,219	

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

## Notes to Financial Statements

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### **Note 7: 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 and in-substance defease principal amounts totaling \$14,395,000 of the callable 2012 refunding bonds.

The outstanding principal balance of in-substance defeased 2012 refunding bonds at December 31, 2021, was \$14,395,000. The principal balance is scheduled to be fully extinguished using state and local government treasury securities held in trust in December 2022.

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 rates ranging from 2.14% to 2.73%. The bonds mature in principal installments ranging from \$205,000 in 2022 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.

#### 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 \$255,000 in 2022 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.

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

## Notes to Financial Statements

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### **Note 7: Long-Term Liabilities** (Continued)

#### 2018 LTGO Bonds

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 \$585,000 in 2022 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

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.

The in-substance defeased 2004 unlimited tax general obligation bonds were fully extinguished in December of 2014.

Interest is payable semiannually on June 1 and December 1, beginning December 1, 2012, at rates that range from 2% to 5%. The bonds mature with one remaining principal payment of \$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.

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 \$750,478 and \$858,981 at December 31, 2021 and 2020, respectively.

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

## Notes to Financial Statements

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### **Note 7: 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.

The in-substance defeased 2005 limited tax general obligation bonds were fully extinguished in December of 2015.

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 \$545,000 in 2022 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 \$486,143 and \$523,780 at December 31, 2021 and 2020, 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 \$255,144 and \$274,898 at December 31, 2021 and 2020, respectively.



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

## Notes to Financial Statements

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### Note 7: Long-Term Liabilities (Continued)

#### Capital Lease Obligations

The Hospital has entered into an agreement for the lease of medical equipment. The agreement expires in 2024 and has an interest rate of 3.79%. 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 was as follows at December 31:

	<u>2021</u>	<u>2020</u>
Historical cost	\$ 49,582	\$ 696,635
Less: Accumulated amortization	<u>28,097</u>	<u>418,434</u>
Equipment acquired under capital lease obligations - Net	<u>\$ 21,485</u>	<u>\$ 278,201</u>

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

## Notes to Financial Statements

### Note 7: Long-Term Liabilities (Continued)

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

	Direct Placements		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2022	\$ 3,425,000	\$ 1,723,114	\$ 10,269	\$ 696
2023	3,720,000	1,484,111	10,665	300
2024	3,885,000	1,382,158	1,180	11
2025	4,040,000	1,275,823	-	-
2026	4,205,000	1,146,977	-	-
2027-2031	14,395,000	4,183,864	-	-
2032-2036	10,635,000	2,239,138	-	-
2037-2041	7,305,000	470,245	-	-
	<u>\$ 51,610,000</u>	<u>\$ 13,905,430</u>	<u>\$ 22,114</u>	<u>\$ 1,007</u>

Total long-term debt and capital lease obligations

\$ 51,610,000   \$ 13,905,430   \$ 22,114   \$ 1,007

### Note 8: 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 and the Hospital agreed to extend the maturity an additional 12 months to February 1, 2021. In 2021, the lender and the Hospital agreed to extend the maturity an additional 12 months to February 1, 2022. There was \$862,500 in outstanding borrowings on the line of credit as of December 31, 2021.

### Note 9: Medicare Refundable Advance

As a result of the COVID-19 pandemic, CMS offered an accelerated and advance payment program, which gave healthcare providers the opportunity to receive an advance on future Medicare payments. The Hospital received Medicare Advance Payments of \$14,844,496 in 2020. Repayment of the Medicare Advance Payments began 12 months after receipt of the advance, with a portion of Medicare payments being withheld until the advance is paid-in-full. Medicare will withhold 25% of net Medicare payments during the first 11 months of the repayment period, and 50% of the net Medicare payments during the final 6 months of the repayment period. Interest will be charged on any remaining balance thereafter at an annual rate of 4.0%. The Hospital reported a Medicare Advance Payment liability totaling \$10,958,757 at December 31, 2021, which is reported as a refundable advance in the accompanying statements of net position. The current portion of the refundable advance is management's estimate of the amount to be repaid within the next fiscal year.

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

## Notes to Financial Statements

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### Note 10: Net Patient Service Revenue

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

	2021	2020
Gross patient service revenue	\$ 262,503,174	\$ 226,104,416
Less: Charity care/financial assistance	588,915	1,132,991
Totals	261,914,259	224,971,425
Contractual adjustments:		
Medicare	89,255,415	80,492,869
Medicaid	19,467,926	14,659,063
Other	46,641,725	35,710,824
Total contractual adjustments	155,365,066	130,862,756
Provision for bad debts	1,961,683	1,747,049
Net patient service revenue	\$ 104,587,510	\$ 92,361,620

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

	2021	2020
Medicare	53 %	53 %
Medicaid	11 %	10 %
Other government	10 %	11 %
Other third-party payors	25 %	25 %
Self-pay	1 %	1 %
Totals	100 %	100 %

# 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 \$588,915 and \$1,132,548 for the years ended December 31, 2021 and 2020, 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 \$2,822,710 and \$3,110,336 for the years ended December 31, 2021 and 2020, respectively. The Hospital recognized pension plan expenses of \$1,750,271 and \$1,571,195 for the years ended December 31, 2021 and 2020, respectively.

All participating employees are 100% vested upon participation.

The Hospital has accrued a liability for pension contributions of \$163,060 and \$16,593 as of December 31, 2021 and 2020, 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 \$77,572 for 2021 and \$82,706 for 2020.

### **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 \$183 or 50% of the monthly premiums. As of the valuation date, the retirees and spouses paid the premium minus \$183 when the premium was over \$366 per month and paid half the premium when the premium was lower than \$366.

# 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 517 active participants, 51 retirees and surviving spouses, and 22 spouses of current retirees.

#### Total OPEB Liability

	2021	2020
Total OPEB liability	\$ 10,626,857	\$ 10,287,176
Covered employee payroll	42,623,241	39,256,523
Total OPEB liability as a % of covered employee payroll	24.93 %	26.21 %

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.

	2021	2020
Valuation date	July 1, 2020	July 1, 2018
Measurement date	December 31, 2020	December 31, 2019

#### Discount Rate

	2021	2020
Discount rate	2.12 %	2.74 %
20-year tax exempt municipal bond yield	2.12 %	2.74 %

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	June 30, 2020
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

	2021	2020
Beginning of year balance	\$ 10,287,176	\$ 7,733,619
Changes for the year:		
Service cost	846,591	624,158
Interest on total OPEB liability	303,005	340,073
Effect of economic/demographic gains or losses	(961,017)	-
Effect of assumptions changes or inputs	302,595	1,717,188
Expected benefit payments	(151,493)	(127,862)
End of year balance	\$ 10,626,857	\$ 10,287,176

#### Sensitivity Analysis

The following presents the total OPEB liability of the Hospital, as of the measurement date, calculated using the discount rates of 2.12% and 2.74%, 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.

	2021	2020
1% decrease	1.12 %	1.74 %
Total OPEB liability	\$ 12,911,697	\$ 12,565,690
Discount rate	2.12 %	2.74 %
Total OPEB liability	\$ 10,626,857	\$ 10,287,176
1% increase	3.12 %	3.74 %
Total OPEB liability	\$ 8,843,573	\$ 8,522,840

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 48.

	2021	2020
1% decrease	\$ 8,522,268	\$ 8,163,036
Current trend rate	\$ 10,626,857	\$ 10,287,176
1% increase	\$ 13,493,967	\$ 13,193,376

# 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)

#### OPEB Expense

For the years ended December 31, 2021 and 2020, the Hospital recognized OPEB expense of \$583,481 and \$471,794, respectively.

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

At December 31, 2021, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,261,209
Assumption changes or inputs	-	1,616,132
Benefit payments subsequent to the measurement date	163,496	-
Total	\$ 163,496	\$ 2,877,341

At December 31, 2020, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 444,174
Assumption changes or inputs	-	2,177,294
Benefit payments subsequent to the measurement date	151,423	-
Total	\$ 151,423	\$ 2,621,468

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

\$163,496 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, 2022.



# 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:

2022	\$	(402,549)
2023		(402,549)
2024		(402,549)
2025		(402,549)
2026		(402,549)
Thereafter		(864,596)

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 2020 actuarial valuation of Washington State retirement systems, and modified for the Hospital.

The assumed disability rates under PERS plan 2 from the 2020 actuarial valuation are less than 0.1% for ages 50 and below and continue to be low after that. The disability rate was assumed to be 0% for all ages.

For service retirement, PERS plan 2 was used, with less than 30 years of service assumptions from the 2020 actuarial valuation for PERS.

For mortality, the assumptions from the 2020 actuarial valuation for Washington State retirement systems, adjusted for the Hospital were used. PubG.H-2010 base mortality table with generational mortality adjustments using the long term MP-2017 generational improvement scale were used.

For other termination of employment, the assumptions from the 2020 actuarial valuation for Washington State retirements systems was 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:

<u>Year Ending</u>	<u>Pre-65 Claims and Contributions</u>	<u>Post-65 Claims</u>	<u>Post-65 Contributions</u>
6/30/2021	6.10 %	5.70 %	8.70 %
6/30/2022	5.40	8.90	13.40
6/30/2023	5.20	8.90	12.20
6/30/2024	5.10	5.10	5.30
6/30/2025	5.10	5.10	5.30
6/30/2035	5.20	5.10	5.20
6/30/2045	5.30	5.20	5.30
6/30/2055	5.10	5.10	5.20
6/30/2065	5.00	4.90	4.90
6/30/2075	4.30	4.30	4.30
6/30/2085	4.30	4.30	4.30
6/30/2095	4.30	4.30	4.30
6/30/2096+	4.30	4.30	4.30

#### Premium Levels

The assumed annual medical retiree contributions used in the valuation are displayed next. These represent a weighted average of July 1, 2020 - June 30, 2021, 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

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

#### Premium Levels (Continued)

Medical plan:	Subscriber or Spouse	
	Non-Medicare	Medicare
Weighted average based on current PEBB retirees	\$ 8,240.28	\$ 3,214.48

The assumed annual dental retiree contributions are displayed below. These represent a weighted average of July 1, 2020 - June 30, 2021, 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	\$ 566.22	\$ 566.22

#### Participant Data

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

	Attained Age At		Count
	Hire	Valuation	
Actives	38.9	46.5	517
Retirees	n/a	70.8	51

### 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 \$315,252 has been accrued at December 31, 2021, 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. The federal health care reform legislation does not affect the financial statements for the years ended December 31, 2021 and 2020.

### **Note 15: Payroll Tax Deferral**

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) allowed employers to defer payment of their share of the social security taxes on employee wages. 50% of the amounts deferred was required to be paid by December 31, 2021, with the remaining 50% required to be paid by December 31, 2022. Accrued social security taxes payable was \$1,018,277 and \$1,648,746 at December 31, 2021 and 2020, respectively, and is included in accrued payroll and related liabilities in the accompanying statements of net position. The Hospital elected to report the full amount of deferred social security taxes as a current liability.

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

## Notes to Financial Statements

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### Note 16: 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, 2018 LTGO Bonds and 2019 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 \$7.0 billion with a maximum levy rate of 0.8123 and 0.8336 per \$1,000 assessed value for the years ended December 31, 2021 and 2020, 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 5.1% and 5.6% of its financial support from property taxes in 2021 and 2020. These funds were available for the following:

	2021	2020
Maintenance and operations	\$ 3,189,992	\$ 3,110,685
Debt service	2,546,452	2,563,719
Total tax levy	\$ 5,736,444	\$ 5,674,404

### 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 \$756,012 and \$1,206,080 during the years ended December 31, 2021 and 2020, respectively.

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

## Notes to Financial Statements

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### Note 17: Foundation (Continued)

The Foundation's financial position was as follows at December 31, 2021 and 2020:

	2021	2020
Assets	\$ 5,944,134	\$ 4,563,921
Liabilities	\$ 110,483	\$ 244,571
Net assets	5,833,651	4,319,350
Liabilities and net assets	\$ 5,944,134	\$ 4,563,921

### Note 18: COVID-19 Relief Funds and Grant Revenue

During 2021 and 2020, the Hospital received \$0 and \$7,415,428, respectively, in grant funding from the Provider Relief Fund (PRF), which was established as a result of the CARES Act. Based on the terms and conditions of the grant, the Hospital earns the grant by incurring healthcare-related expenses attributable to COVID-19 that another source has not reimbursed and is not obligated to reimburse, or by incurring lost revenue, as defined by the Department of Health and Human Services. During 2021 and 2020, the Hospital recognized \$0 and \$7,415,428 in revenue related to this program, which reflects management's estimate of the amount of the grant earned.

The Hospital received other grants in 2021 in the amount of \$552,684 for COVID-19 relief that are reported as unearned revenue as of December 31, 2021.

### Note 19: Reclassifications

GASB Statement No. 85, *Omnibus 2017* requires that excess consideration provided in a governmental acquisition be amortized in a systematic and rational manner considering relevant circumstances of the acquisition. GASB Statement No. 85 was effective for the Hospital's year ended December 31, 2018 and the guidance is required to be applied retrospectively.

The Hospital had previously reported excess consideration provided in governmental acquisitions in the amount \$598,703, which was reported as intangible assets. Based on relevant circumstances and timing of the acquisitions, the Hospital has determined that all previously reported intangible assets should be reported as fully amortized as of December 31, 2018. Accordingly, a reclassification has been made to offset intangible assets previously reported in the amount of \$598,703 against beginning 2020 net position in the accompanying statements of net position.

The reclassification has no impact on the debt service coverage ratio or days cash on hand debt covenant requirements.

## **Required Supplementary Information**

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# 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	2021	2020	2019	2018	2017
Service cost	\$ 846,591	\$ 624,158	\$ 1,060,645	\$ 927,542	\$ 949,231
Interest on total OPEB liability	303,005	340,073	443,914	406,108	356,394
Effect of economic/demographic gains or losses	(961,017)	-	(552,508)	-	-
Effect of assumption changes or inputs	302,595	1,717,188	(5,007,941)	796,063	(431,143)
Expected benefit payments	(151,493)	(127,862)	(107,728)	(96,189)	(88,319)
Net change in total OPEB liability	339,681	2,553,557	(4,163,618)	2,033,524	786,163
Total OPEB liability, beginning	10,287,176	7,733,619	11,897,237	9,863,713	9,077,550
Total OPEB liability, ending	<u>\$ 10,626,857</u>	<u>\$ 10,287,176</u>	<u>\$ 7,733,619</u>	<u>\$ 11,897,237</u>	<u>\$ 9,863,713</u>

GASB Statement 75 requires this information to be provided for 10 years. Because this is the fifth 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, 2020, valuation:

- Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic and health assumptions each period.



## **Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of 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, 2021, and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 27, 2022.

### **Report on 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”) as a basis for designing 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.

## Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 27, 2022  
Spokane, Washington