

**Lewis County Public Hospital District No. 1  
doing business as  
Arbor Health**

Basic Financial Statements and  
Independent Auditors' Reports

December 31, 2020 and 2019



**DINGUS | ZARECOR & ASSOCIATES** PLLC  
Certified Public Accountants

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Morton, Washington

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

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

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

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

### **Auditors' Responsibility**

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2020 and 2019, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 14 to the financial statements, the COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 14. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2020. We issued a similar report for the year ended December 31, 2019, dated April 27, 2020, which has not been included with the 2020 financial and compliance report. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
May 5, 2021

**Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Management’s Discussion and Analysis  
Years Ended December 31, 2020 and 2019**

Our discussion and analysis of Lewis County Public Hospital District No. 1 doing business as Arbor Health’s (the District) financial performance provides an overview of the District’s financial activities for the years ended December 31, 2020 and 2019. Please read it in conjunction with the District’s financial statements, which begin on page 8.

**Financial Highlights**

- The District’s net position increased by \$853,548, or 9 percent, in 2020 and increased by \$484,811, or 5 percent, in 2019.
- The District reported operating loss of \$5,024,600 in 2020 and operating loss of \$938,901 in 2019. Operating losses increased by \$4,085,699 in 2020 and increased by \$155,031 in 2019.
- Nonoperating revenues and expenses increased by \$4,454,436, or 323 percent, in 2020 compared to 2019. Nonoperating revenues and expenses increased by \$82,442, or 6 percent, in 2019 compared to 2018.

**Using This Annual Report**

The District’s financial statements consist of three statements—a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, or enabling legislation.

**The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position**

Our analysis of the District finances begins on page 4. One of the most important questions asked about the District’s finances is, “Is the District as a whole better or worse off as a result of the year’s activities?” The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District’s resources and its activities 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 the cash is received or paid.

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

**The Statement of Cash Flows**

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as “Where did cash come from?” “What was cash used for?” and “What was the change in cash balance during the reporting period?”

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Management’s Discussion and Analysis (Continued)**  
**Years Ended December 31, 2020 and 2019**

**The District’s Net Position**

The District’s net position is the difference between its assets and liabilities reported in the Statement of Net Position, on page 8. The District’s net position decreased by \$853,548, or 9 percent, in 2020 and increased by \$484,811, or 5 percent, in 2019, as shown in Table 1.

A significant component of the change in the District’s assets is the decline in capital assets. This is mostly attributed to the lack of capital spending across the District. The District plans for major renovation in support areas in 2021 and onward. Current assets have increased by 95 percent, mainly in cash as the District participated in various programs related to the COVID-19 pandemic. Changes in the Medicare program receivable, while sizeable, are standard experiences in the critical access hospital program.

**Table 1: Assets, Liabilities, and Net Position**

	<b>2020</b>	<b>2019</b>	<b>2018</b>
<i>Assets</i>			
Current assets	\$ 18,722,830	\$ 9,580,133	\$ 8,896,608
Capital assets, net	8,916,298	9,469,416	10,823,038
Other noncurrent assets	3,205,817	1,339,891	1,282,355
<b>Total assets</b>	<b>\$ 30,844,945</b>	<b>\$ 20,389,440</b>	<b>\$ 21,002,001</b>
<i>Liabilities</i>			
Current liabilities	\$ 9,988,546	\$ 3,881,409	\$ 3,870,342
Noncurrent liabilities	10,700,770	7,205,950	8,314,389
<b>Total liabilities</b>	<b>20,689,316</b>	<b>11,087,359</b>	<b>12,184,731</b>
<i>Net position</i>			
Net investment in capital assets	1,726,015	1,180,609	785,695
Restricted for debt service	836,344	761,618	717,044
Unrestricted	7,593,270	7,359,854	7,314,531
<b>Total net position</b>	<b>10,155,629</b>	<b>9,302,081</b>	<b>8,817,270</b>
<b>Total liabilities, deferred inflow of resources, and net position</b>	<b>\$ 30,844,945</b>	<b>\$ 20,389,440</b>	<b>\$ 21,002,001</b>

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended December 31, 2020 and 2019**

**Operating Results and Changes in The District's Net Position**

In 2020, the District's net position increased by \$853,548, or 9 percent, as shown in Table 2. This increase is made up of very different components, compared with the increase in net position for 2019 of \$484,811, and is discussed below.

**Table 2: Operating Results and Changes in Net Position**

	<b>2020</b>	<b>2019</b>
<i>Operating revenues</i>		
Net patient revenue, net of provision for bad debts	\$ 25,997,099	\$ 26,965,225
Electronic health records incentive payment (payback)	-	-
Grants and other	527,328	545,587
<b>Total operating revenues</b>	<b>26,524,427</b>	<b>27,510,812</b>
<i>Operating expenses</i>		
Salaries and benefits	18,721,892	16,760,671
Supplies	2,124,331	1,895,561
Depreciation and amortization	1,736,150	1,780,460
Other	8,966,654	8,013,021
<b>Total operating expenses</b>	<b>31,549,027</b>	<b>28,449,713</b>
<b>Operating loss</b>	<b>(5,024,600)</b>	<b>(938,901)</b>
<i>Nonoperating revenues (expenses)</i>		
CARES Act Provider Relief Fund	3,711,316	-
COVID-19 grants	637,152	-
Taxation	1,792,600	1,609,987
Interest income	62,875	131,170
Interest expense	(425,819)	(428,642)
Other	100,024	111,197
<b>Total nonoperating revenues, net</b>	<b>5,878,148</b>	<b>1,423,712</b>
Change in net position	853,548	484,811
Net position, beginning of year	9,302,081	8,817,270
<b>Net position, end of year</b>	<b>\$ 10,155,629</b>	<b>\$ 9,302,081</b>

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Management’s Discussion and Analysis (Continued)**  
**Years Ended December 31, 2020 and 2019**

**Analysis of Financial Position, Results of Operations, Nonoperating Activities, and Cash Flows**

The first component of the overall change in the District’s net assets is its operating loss—the difference between net patient service revenues and the expenses incurred to perform those services. In 2020 and 2019, the District reported an operating loss. Operating losses increased by \$4,085,699, or 435 percent, from 2019 to 2020, and increased by \$155,031, or 20 percent, from 2018 to 2019.

The District experienced a decline in most service lines due to the COVID-19 pandemic, as illustrated in the table below.

	2020	2019	Variance	Variance %
<i>Admissions</i>				
Medical/surgical	154	190	(36)	-19%
Skilled nursing	76	96	(20)	-21%
<i>Patient Days</i>				
Medical/surgical	517	631	(114)	-18%
Skilled nursing	1,137	1,366	(229)	-17%
Custodial	1,330	2,723	(1,393)	-51%
<i>Outpatient Utilization</i>				
Outpatient registrations	11,991	10,580	1,411	13%
Observation registrations	212	218	(6)	-3%
Emergency registrations	4,159	4,721	(562)	-12%
Physician clinics	18,434	13,197	5,237	40%

The District acquired a local physician practice in 2020 in an effort to maintain stability in the primary care market. The District continues to experience turnover in staffing and has moved to staffing with out-of-market staffing contracts, thereby increasing its professional fee cost in 2020. Employee benefit cost continues to grow with an aging workforce.

The primary components of these changes in operating losses are:

- A decrease in inpatient and skilled nursing days of 17 percent.
- A decline in emergency department visit of 12 percent.
- An increase in physician clinic visit and referral outpatient utilization in laboratory and radiological encounters.
- Increase in salaries and benefits expense of \$1,961,221 or 12 percent, from 2019 to 2020, and an increase of \$603,040, or 4 percent, from 2018 to 2019.
- To maintain appropriate staffing levels and expertise, the District is utilizing out-of-market staffing resources as the local labor market does not support the staffing requirements. Staff recruitment is a high priority for the District and significant effort is being made recruiting staff to the area.

**Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Management's Discussion and Analysis (Continued)  
Years Ended December 31, 2020 and 2019**

**Capital Assets**

At the end of 2020, the District had \$8,916,298 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements.

**Debt**

At year end, the District had \$10,700,770 in revenue notes, mortgage loans, and capital lease obligations outstanding. The District issued new debt of \$2,000,000 in 2020. The District's formal debt issuances—revenue notes—cannot be issued without approval of the District's Board of Commissioners.

**Currently Known Facts, Decisions, and Conditions**

There are no known changes in the community, industry, or state programs that can be quantified at this time.

**Contacting the District's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the administration department at Arbor Health, PO Box 1138, Morton, Washington 98356.

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Statements of Net Position**  
**December 31, 2020 and 2019**

<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 13,907,557	\$ 4,690,387
Receivables:		
Patient accounts	3,284,901	3,814,638
Estimated third-party payor settlements	454,668	374,592
Taxes	25,177	30,141
Taxes restricted for debt service	25,445	29,897
Other	450,314	112,724
Inventories	312,750	257,648
Prepaid expenses and other	262,018	270,106
Total current assets	18,722,830	9,580,133
<i>Noncurrent assets</i>		
Cash and cash equivalents, limited as to use for capital acquisitions	395,614	608,170
Cash and cash equivalents, restricted for debt service	810,899	731,721
Cash and cash equivalents, restricted for capital acquisitions	1,999,304	-
Capital assets, net	8,916,298	9,469,416
Total noncurrent assets	12,122,115	10,809,307
<b>Total assets</b>	<b>\$ 30,844,945</b>	<b>\$ 20,389,440</b>

*See accompanying notes to basic financial statements.*

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Statements of Net Position (Continued)**  
**December 31, 2020 and 2019**

<b>LIABILITIES AND NET POSITION</b>	<b>2020</b>	<b>2019</b>
<i>Current liabilities</i>		
Accounts payable	\$ 583,616	\$ 579,821
Accrued compensation and related liabilities	1,798,286	1,446,790
Estimated third-party payor settlements	-	577,252
Electronic health records incentive payback	194,689	194,689
Current maturities of long-term debt	1,316,175	1,005,000
Current portion of capital lease obligations	-	77,857
Unearned CARES Act Provider Relief Funds	773,947	-
Medicare accelerated payments	5,321,833	-
Total current liabilities	<b>9,988,546</b>	3,881,409
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	7,850,170	7,205,950
Paycheck Protection Program loan	2,850,600	-
Total noncurrent liabilities	<b>10,700,770</b>	7,205,950
Total liabilities	<b>20,689,316</b>	11,087,359
<i>Net position</i>		
Net investment in capital assets	1,726,015	1,180,609
Restricted for debt service	836,344	761,618
Unrestricted	7,593,270	7,359,854
Total net position	<b>10,155,629</b>	9,302,081
<b>Total liabilities and net position</b>	<b>\$ 30,844,945</b>	<b>\$ 20,389,440</b>

*See accompanying notes to basic financial statements.*

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2020 and 2019**

	2020	2019
<i>Operating revenues</i>		
Net patient revenue	\$ 25,997,099	\$ 26,965,225
Grants	223,208	127,329
Other	304,120	418,258
<b>Total operating revenues</b>	<b>26,524,427</b>	<b>27,510,812</b>
<i>Operating expenses</i>		
Salaries and wages	14,792,381	13,291,870
Employee benefits	3,929,511	3,468,801
Professional fees	4,112,182	3,631,231
Supplies	2,124,331	1,895,561
Utilities	487,739	386,128
Purchased services	2,382,917	1,965,280
Leases and rentals	223,328	128,090
Repairs and maintenance	434,407	389,054
Depreciation and amortization	1,736,150	1,780,460
Insurance	214,206	199,590
Other	1,111,875	1,313,648
<b>Total operating expenses</b>	<b>31,549,027</b>	<b>28,449,713</b>
<i>Operating loss</i>	<b>(5,024,600)</b>	<b>(938,901)</b>
<i>Nonoperating revenues (expenses)</i>		
CARES Act Provider Relief Fund	3,711,316	-
COVID-19 grants	637,152	-
Taxation for maintenance and operations	981,433	803,187
Taxation for bond principal and interest	811,167	806,800
Contributions	4,299	16,692
Build America Bond subsidy	95,725	92,146
Gain on sale of assets	-	2,359
Interest income	62,875	131,170
Interest expense	(425,819)	(428,642)
<b>Total nonoperating revenues, net</b>	<b>5,878,148</b>	<b>1,423,712</b>
Change in net position	853,548	484,811
Net position, beginning of year	9,302,081	8,817,270
<b>Net position, end of year</b>	<b>\$ 10,155,629</b>	<b>\$ 9,302,081</b>

See accompanying notes to basic financial statements.

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

	2020	2019
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from patient services	\$ 25,869,508	\$ 27,848,738
Cash received from grants	223,208	127,329
Cash received from other revenue	304,120	418,258
Cash paid to and on behalf of employees	(18,669,767)	(16,780,812)
Cash paid to suppliers and contractors	(11,123,383)	(9,782,468)
Net cash provided by (used in) operating activities	(3,396,314)	1,831,045
<i>Cash flows from noncapital financing activities</i>		
Proceeds from CARES Act Provider Relief Fund	4,485,263	-
Proceeds from COVID-19 grants	637,152	-
Proceeds from Medicare accelerated payments	5,321,833	-
Proceeds from Paycheck Protection Program	2,850,600	-
Cash received from taxation for maintenance and operations	986,397	803,093
Contributions received	4,299	16,692
Net cash provided by noncapital financing activities	14,285,544	819,785
<i>Cash flows from capital and related financing activities</i>		
Cash received from taxation for bond principal and interest	815,619	805,776
Interest paid	(441,486)	(455,500)
Principal payments on long-term debt	(1,028,938)	(1,636,780)
Proceeds from issuance of long-term debt	2,000,000	-
Principal payments on capital leases	(77,857)	(84,899)
Payments for purchase of capital assets	(1,183,032)	(426,838)
Proceeds from the sale of capital assets	-	2,359
Cash received from Build America Bonds subsidy	46,685	92,146
Net cash provided by (used in) capital and related financing activities	130,991	(1,703,736)
<i>Cash flows from investing activities</i>		
Interest received	62,875	131,170
Net increase in cash and cash equivalents	11,083,096	1,078,264
Cash and cash equivalents, beginning of year	6,030,278	4,952,014
<b>Cash and cash equivalents, end of year</b>	<b>\$ 17,113,374</b>	<b>\$ 6,030,278</b>

*See accompanying notes to basic financial statements.*

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2020 and 2019**

	2020	2019
<b><i>Reconciliation of Cash and Cash Equivalents</i></b>		
<b><i>to the Statements of Net Position</i></b>		
Cash and cash equivalents	\$ 13,907,557	\$ 4,690,387
Cash and cash equivalents, limited as to use for capital acquisitions	395,614	608,170
Cash and cash equivalents, restricted for debt service	810,899	731,721
Cash and cash equivalents, restricted for capital acquisitions	1,999,304	-
<b>Total cash and cash equivalents</b>	<b>\$ 17,113,374</b>	<b>\$ 6,030,278</b>
<b><i>Reconciliation of Operating Loss to Net Cash</i></b>		
<b><i>Provided by (Used in) Operating Activities</i></b>		
Operating loss	\$ (5,024,600)	\$ (938,901)
<i>Adjustments to reconcile operating loss to net cash provided</i>		
<i>by (used in) operating activities</i>		
Depreciation and amortization	1,736,150	1,780,460
Provision for bad debts	521,292	824,575
(Increase) decrease in current assets:		
Receivables:		
Patient accounts, net	8,445	(1,292,067)
Estimated third-party payor settlements	(80,076)	773,753
Other	(288,550)	(20,180)
Inventories	(55,102)	43,442
Prepaid expenses and other	8,088	8,798
Increase (decrease) in current liabilities:		
Accounts payable	3,795	75,647
Accrued compensation and related liabilities	351,496	(1,734)
Estimated third-party payor settlements	(577,252)	577,252
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (3,396,314)</b>	<b>\$ 1,831,045</b>

*See accompanying notes to basic financial statements.*

**Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Notes to Basic Financial Statements  
Years Ended December 31, 2020 and 2019**

**1. Reporting Entity and Summary of Significant Accounting Policies:**

**a. Reporting Entity:**

Lewis County Public Hospital District No. 1 owns and operates Arbor Health (the District), a licensed 25-bed critical access hospital in Morton, Washington, and rural health clinics in Randle, Mossyrock and Morton, Washington. The District provides healthcare services to patients in eastern Lewis County, Washington. The services provided include acute care, emergency room, skilled swing-bed care services, physicians' clinic, and the related ancillary services (surgery, laboratory, imaging, therapy, etc.) associated with those services.

The District operates under the laws of the state of Washington relating to Washington municipal corporations. As organized, the District is exempt from the payment of federal income taxes. The Board of Commissioners consists of five community members elected to six-year terms.

Arbor Health Foundation (the Foundation), is a separate entity, and was organized to assist the District in raising donated funds. The resources and operations were determined not to be significant to the District and, therefore, the Foundation is not reported as a component unit of the District in the accompanying financial statements.

**b. Summary of Significant Accounting Policies:**

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

*Enterprise fund accounting* – The District's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

*Cash and cash equivalents* – All cash receipts are deposited directly to the District's depository accounts at banks. Periodically, these funds are transferred to the operating accounts held by the Lewis County Treasurer (County Treasurer). The County Treasurer acts as the District's treasurer. Warrants are issued against the cash placed with the County Treasurer, and the warrants are redeemed from a commercial bank by the County Treasurer. The County Treasurer invests cash in interest-bearing investments at the direction of the District. For purposes of the statements of cash flows, the District considers all cash and cash investments with original maturity dates of less than 90 days as cash and cash equivalents.

*Inventories* – Inventories are stated at cost on the first-in, first-out method. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the District's operation.

*Assets restricted or limited as to use* – Assets restricted or limited as to use include assets set aside by the Board of Commissioners for future capital improvements over which the Board retains control and could subsequently use for other purposes, and assets set aside for repayment of principal and interest on bond indebtedness and capital acquisitions.

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued):**

***Bond premiums and discounts*** – The straight-line method is used to amortize the bond premiums and discounts over the period the related obligation is outstanding, which approximates the effective interest method.

***Capital assets*** – The District capitalizes assets whose costs exceed \$5,000 and with estimated useful lives of at least one year; lesser amounts are expensed. The capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. When such assets are disposed of, the related costs and accumulated depreciation or amortization is removed from the accounts and the resulting gain or loss is classified in nonoperating revenues or expenses.

***Compensated absences*** – Compensated absences consist of absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred. Accrued vacation, which may be accumulated up to 360 hours, is payable upon resignation, retirement, or death. There is no limit to the amount of sick leave employees may accumulate; however, it is not payable to the employees upon conclusion of their employment under any circumstance. In 2018, the District began providing paid sick leave, in accordance with Washington State law, to all non-benefited employees.

***Net position*** – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets, net of accumulated depreciation, reduced by current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is the net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

***Operating revenues and expenses*** – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services—the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. All other revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses, such as interest.

***Restricted resources*** – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

**Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2020 and 2019**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued):**

**Grants and contributions** – From time to time, the District receives grants from the state of Washington and others as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grants that are for specific projects, or purposes related to the District’s operating activities, are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

**Subsequent events** – Subsequent events have been reviewed through May 5, 2021, the date on which the financial statements were available to be issued.

**Upcoming accounting standard pronouncements** – In July 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible asset representing the lessee’s right to use the leased asset, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The new guidance is effective for the District’s year ending December 31, 2022, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The statement is effective for the District’s year ending December 31, 2021. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

**Lewis County Public Hospital District No. 1**  
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**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**2. Bank Deposits and Investments:**

*The Revised Code of Washington*, 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 Washington State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments. Amounts invested in the Washington State Local Government Investment Pool at December 31, 2020 and 2019, were approximately \$12,682,000 and \$4,915,000, respectively. The Washington State Local Government Investment Pool consists of investments in federal, state, and local government certificates and savings accounts in qualified public depositories.

***Custodial credit risk*** – The risk that, in the event of a failure of the counterparty, the District will not be able to recover that value of the deposits or investments that are in the possession of an outside party. All District deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple-financial institution collateral pool administered by the Washington Public Deposit Protection Commission, and all investments are insured, registered, or held by the District’s agent in the District’s name at qualified public depositories. The District’s investment policy does not contain policy requirements that would limit the exposure to custodial risk for investments.

***Credit risk*** – The risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not have a policy specifically requiring or limiting investments of this type.

***Concentration of credit risk*** – The inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District does not have a policy limiting the amount it may invest in any one issuer or multiple issuers.

***Interest rate risk*** – The possibility that an interest rate change could adversely affect an investment’s fair value. The District does not have a policy specifically managing its exposure to fair value losses arising from changing interest rates.

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**3. Patient Accounts Receivable:**

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the District analyzes its past history and identifies trends for each of its patient payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The District's allowance for uncollectible accounts for self-pay patients has declined in comparison to the prior year due to increased collection efforts of self-pay accounts receivable balances. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the District consisted of the following amounts:

	<b>2020</b>	<b>2019</b>
Receivables from patients and their insurance carriers	\$ 1,361,002	\$ 1,309,205
Receivables from Medicare	1,930,197	2,518,631
Receivables from Medicaid	322,683	352,028
Receivables from 340b contract pharmacy	66,706	64,741
Total patient accounts receivable	<b>3,680,588</b>	4,244,605
Less allowance for uncollectible accounts	<b>395,687</b>	429,967
<b>Patient accounts receivable, net</b>	<b>\$ 3,284,901</b>	<b>\$ 3,814,638</b>

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**4. Capital Assets:**

All capital assets other than land are depreciated or amortized (in the case of capital leases) by the straight-line method of depreciation using these asset lives:

Land improvements	8 to 25 years
Buildings and improvements	5 to 40 years
Equipment	3 to 25 years

Capital asset additions, retirements, transfers, and balances were as follows:

	Balance December 31, 2019	Additions	Retirements	Transfers	Balance December 31, 2020
<i>Capital assets not being depreciated</i>					
Land	\$ 968,599	\$ 30,000	\$ -	\$ -	\$ 998,599
Construction in progress	405,798	367,101	-	(280,328)	492,571
Total capital assets not being depreciated	1,374,397	397,101	-	(280,328)	1,491,170
<i>Capital assets being depreciated</i>					
Land improvements	1,426,739	-	-	-	1,426,739
Buildings and improvements	17,053,317	382,804	-	-	17,436,121
Equipment	10,184,289	403,127	-	280,328	10,867,744
Total capital assets being depreciated	28,664,345	785,931	-	280,328	29,730,604
<i>Less accumulated depreciation for</i>					
Land improvements	(1,056,286)	(55,206)	-	-	(1,111,492)
Buildings and improvements	(11,796,925)	(662,494)	-	-	(12,459,419)
Equipment	(7,716,115)	(1,018,450)	-	-	(8,734,565)
Total accumulated depreciation	(20,569,326)	(1,736,150)	-	-	(22,305,476)
<i>Total capital assets being depreciated, net</i>	8,095,019	(950,219)	-	280,328	7,425,128
<b>Capital assets, net</b>	<b>\$ 9,469,416</b>	<b>\$ (553,118)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,916,298</b>

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**4. Capital Assets (continued):**

	Balance December 31, 2018	Additions	Retirements	Transfers	Balance December 31, 2019
<i>Capital assets not being depreciated</i>					
Land	\$ 968,599	\$ -	\$ -	\$ -	\$ 968,599
Construction in progress	159,091	313,982	(1,840)	(65,435)	405,798
Total capital assets not being depreciated	1,127,690	313,982	(1,840)	(65,435)	1,374,397
<i>Capital assets being depreciated</i>					
Land improvements	1,426,739	-	-	-	1,426,739
Buildings and improvements	16,987,243	20,570	-	45,504	17,053,317
Equipment	10,070,232	94,126	-	19,931	10,184,289
Total capital assets being depreciated	28,484,214	114,696	-	65,435	28,664,345
<i>Less accumulated depreciation for</i>					
Land improvements	(984,946)	(71,340)	-	-	(1,056,286)
Buildings and improvements	(11,098,569)	(698,356)	-	-	(11,796,925)
Equipment	(6,705,351)	(1,010,764)	-	-	(7,716,115)
Total accumulated depreciation	(18,788,866)	(1,780,460)	-	-	(20,569,326)
<i>Total capital assets being depreciated, net</i>	9,695,348	(1,665,764)	-	65,435	8,095,019
<b>Capital assets, net</b>	<b>\$ 10,823,038</b>	<b>\$ (1,351,782)</b>	<b>\$ (1,840)</b>	<b>\$ -</b>	<b>\$ 9,469,416</b>

At December 31, 2020, construction in progress included the costs of two projects:

- The installation of a new IT servers, which had no additional costs and was completed in January 2021.
- An upgrade to the emergency power system and the heating, ventilation, and air conditioning (HVAC) system in the operating room. The project has an estimated cost to complete of approximately \$2,205,000 and is expected to be completed in the July of 2021. This project is funded by the GE Government Finance, Inc., note payable described in Note 6.

**Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2020 and 2019**

**5. Defined Contribution Retirement Plan:**

The District has a tax-sheltered annuity (TSA) plan that is available to substantially all employees. The deferred compensation plan has been established by the District under Section 403(b) of the Internal Revenue Code and is administered by Nationwide. The name of the plan is Lewis County Hospital District No. 1 doing business as Arbor Health 403(b) Plan (the Plan). The Plan is a defined contribution plan funded from both employee and employer contributions that are deposited in employee-controlled accounts. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the District. Employees may contribute to the TSA immediately upon employment. After employees have completed 12 months of service (1,000 hours in the preceding 12-month period), have attained age 18, and are in the eligible class, the District will make contributions to the employee's account. The District's contribution is on a matching basis at a rate to be determined annually by the District, and the District maintains sole discretion of how much, if any, it will make as an employer contribution. Employee and employer contributions are 100 percent vested at the time they are paid. Any forfeitures occurring during the plan year will be used to pay plan expenses and reduce the current-period contribution requirement. Pension expenses for the years ended December 31, 2020 and 2019, were approximately \$524,000 and \$485,000, respectively. Employee contributions to the Plan for the years ended December 31, 2020 and 2019, were approximately \$798,000 and \$780,000, respectively.

The District owed approximately \$38,000 and \$30,000 to the Plan at December 31, 2020 and 2019, respectively.

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**6. Long-term Debt and Capital Lease Obligations:**

A schedule of changes in the District's long-term debt and capital lease obligations follows:

	Balance December 31, 2019			Additions	Reductions	Balance December 31, 2020		Amounts Due Within One Year		
<i>Long-term debt</i>										
GE Government Finance, Inc note payable	\$	-	\$	2,000,000	\$	(23,938)	\$	1,976,062	\$	266,175
2005 LTGO bonds		1,205,000		-		(180,000)		1,025,000		185,000
2010 LTGO A bonds		505,000		-		(80,000)		425,000		85,000
2010 LTGO B bonds		4,130,000		-		-		4,130,000		-
2012 UTGO bonds		2,340,000		-		(745,000)		1,595,000		780,000
Bond premiums and discounts		30,950		-		(15,667)		15,283		-
<b>Total long-term debt</b>		<b>8,210,950</b>		<b>2,000,000</b>		<b>(1,044,605)</b>		<b>9,166,345</b>		<b>1,316,175</b>
<i>Capital lease obligations</i>										
Regents		37,586		-		(37,586)		-		-
De Lage (Cerner)		6,798		-		(6,798)		-		-
Everbank		33,473		-		(33,473)		-		-
<b>Total capital lease obligations</b>		<b>77,857</b>		<b>-</b>		<b>(77,857)</b>		<b>-</b>		<b>-</b>
<b>Total long-term debt and capital lease obligations</b>	<b>\$</b>	<b>8,288,807</b>	<b>\$</b>	<b>2,000,000</b>	<b>\$</b>	<b>(1,122,462)</b>	<b>\$</b>	<b>9,166,345</b>	<b>\$</b>	<b>1,316,175</b>
	Balance December 31, 2018			Additions	Reductions	Balance December 31, 2019		Amounts Due Within One Year		
<i>Long-term debt</i>										
Note payable to De Lage (Cerner)	\$	666,780	\$	-	\$	(666,780)	\$	-	\$	-
2005 LTGO bonds		1,375,000		-		(170,000)		1,205,000		180,000
2010 LTGO A bonds		585,000		-		(80,000)		505,000		80,000
2010 LTGO B bonds		4,130,000		-		-		4,130,000		-
2012 UTGO bonds		3,060,000		-		(720,000)		2,340,000		745,000
Bond premiums and discounts		57,808		-		(26,858)		30,950		-
<b>Total long-term debt</b>		<b>9,874,588</b>		<b>-</b>		<b>(1,663,638)</b>		<b>8,210,950</b>		<b>1,005,000</b>
<i>Capital lease obligations</i>										
Regents		74,137		-		(36,551)		37,586		37,586
De Lage (Cerner)		18,879		-		(12,081)		6,798		6,798
Everbank		69,740		-		(36,267)		33,473		33,473
<b>Total capital lease obligations</b>		<b>162,756</b>		<b>-</b>		<b>(84,899)</b>		<b>77,857</b>		<b>77,857</b>
<b>Total long-term debt and capital lease obligations</b>	<b>\$</b>	<b>10,037,344</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>(1,748,537)</b>	<b>\$</b>	<b>8,288,807</b>	<b>\$</b>	<b>1,082,857</b>

**Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2020 and 2019**

**6. Long-term Debt and Capital Lease Obligations (continued):**

*Long-term debt* – The terms and due dates of the District’s long-term debt are as follows:

- GE Government Finance, Inc., note payable dated May 29, 2020 in the original amount of \$2,000,000, for the upgrade to the emergency power system and the heating, ventilation, and air conditioning (HVAC) system in the operating room. The note is due in monthly installments of \$27,471, including interest at 2.12 percent, through June 2027.
- Limited tax general obligation (LTGO) bonds dated February 18, 2005, in the original amount of \$3,000,000; payable annually on December 1, with variable principal payments ranging from \$185,000 to \$225,000. Interest of 4.69 percent is payable semiannually through December 2025.
- LTGO series A bonds, dated October 28, 2010, in the original amount of \$1,090,000, payable annually on December 1, with variable principal payments ranging from \$85,000 to \$95,000. Interest of 4 percent is payable semiannually through December 2025. The District issued the bonds for an addition and remodel to the hospital.
- LTGO series B bonds (federally taxable Revenue Build America Bonds), dated October 28, 2010, in the original amount of \$4,130,000, payable annually on December 1, with variable principal payments starting in 2025, ranging from \$25,000 to \$495,000. Variable rate interest of 6.675 percent to 6.875 percent is payable semiannually through December 2035. The District issued the bonds for an addition and remodel to the hospital.
- Unlimited tax general obligation (UTGO) bonds (refunding), dated December 1, 2012, in the original amount of \$7,265,000, payable annually on December 1, with variable principal payments ranging from \$780,000 to \$815,000. Variable rate interest of 2.25 percent to 2.75 percent is payable semiannually through December 2022. The District issued the bonds to refund the 2002 UTGO bonds.

All LTGO bonds are general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying, each year, a maintenance and operations tax upon the taxable property within the District.

The UTGO bond is a direct and general obligation and is secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying each year a tax upon the taxable property within the District. Tax receipts limited for bond redemption and interest are used to pay the principal and interest each year.

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**6. Long-term Debt and Capital Lease Obligations (continued):**

*Capital lease obligations* – All capital lease obligation we paid off by the district in 2020.

Aggregate annual principal and interest payments over the terms of long-term debt are as follows:

Years Ending December 31,	LTGO Bonds			UTGO Bonds		
	Principal	Interest	Totals	Principal	Interest	Totals
2021	\$ 270,000	\$ 354,274	\$ 624,274	\$ 780,000	\$ 41,913	\$ 821,913
2022	280,000	342,326	622,326	815,000	22,413	837,413
2023	295,000	330,143	625,143	-	-	-
2024	310,000	317,285	627,285	-	-	-
2025	320,000	303,752	623,752	-	-	-
2026-2030	1,830,000	1,169,722	2,999,722	-	-	-
2031-2035	2,275,000	482,969	2,757,969	-	-	-
	<b>\$ 5,580,000</b>	<b>\$ 3,300,471</b>	<b>\$ 8,880,471</b>	<b>\$ 1,595,000</b>	<b>\$ 64,326</b>	<b>\$ 1,659,326</b>

Years Ending December 31,	Other			Total Long-term Debt		
	Principal	Interest	Totals	Principal	Interest	Totals
2021	\$ 266,175	\$ 36,004	\$ 302,179	\$ 1,316,175	\$ 432,191	\$ 1,748,366
2022	296,319	33,331	329,650	1,391,319	398,070	1,789,389
2023	302,653	26,997	329,650	597,653	357,140	954,793
2024	309,122	20,528	329,650	619,122	337,813	956,935
2025	315,729	13,921	329,650	635,729	317,673	953,402
2026-2030	486,064	8,183	494,247	2,316,064	1,177,905	3,493,969
2031-2035	-	-	-	2,275,000	482,969	2,757,969
	<b>\$ 1,976,062</b>	<b>\$ 138,964</b>	<b>\$ 2,115,026</b>	<b>\$ 9,151,062</b>	<b>\$ 3,503,761</b>	<b>\$ 12,654,823</b>

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**7. Paycheck Protection Program Note Payable:**

In April 2020, the District was granted a loan from North Cascades Bank, Division of Glacier Bank in the aggregate amount of \$2,850,600, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), which was enacted March 27, 2020.

The PPP loan, which was in the form of a Note dated April 23, 2020, matures on April 24, 2022, and bears interest at a rate of 1 percent per annum. The Note may be prepaid by the District at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred after February 15, 2020. The District used the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. The District believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan.

The Hospital applied for PPP loan forgiveness in November 2020. The loan forgiveness will be recorded as a Gain on Forgiveness of Paycheck Protection Program note payable in the statements of revenues, expenses, and changes in net position for the year ending December 31, 2021.

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**8. Net Patient Service Revenue:**

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District 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 District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs has decreased from prior years due to increased collection efforts. The District has not changed its charity care or uninsured discount policies during fiscal years 2020 or 2019. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	<b>2020</b>	<b>2019</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 17,382,035	\$ 17,638,303
Medicaid	4,035,270	4,050,612
Other third-party payors	4,029,429	4,638,035
Patients	1,146,365	1,373,862
340b contract pharmacy	338,405	208,578
	<b>26,931,504</b>	<b>27,909,390</b>
Less:		
Charity care	413,113	119,590
Provision for bad debts	521,292	824,575
<b>Net patient service revenue</b>	<b>\$ 25,997,099</b>	<b>\$ 26,965,225</b>

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**8. Net Patient Service Revenue (continued):**

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

- *Medicare* – The District has been designated a critical access hospital by Medicare and is reimbursed for most inpatient and outpatient services on a cost basis as defined and limited by the Medicare program. The rural health clinics are also paid under a cost reimbursement method. Nonrural health clinic physician services are reimbursed on a fee schedule. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.
- *Medicaid* – Reimbursement for most inpatient and outpatient services rendered to Medicaid program beneficiaries is reimbursed on a cost basis as defined by the state of Washington. The rural health clinics are paid under a prospective rate per encounter methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and review thereof by the Washington State Health Care Authority.

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

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$10,000 in 2020, and increased by approximately \$11,000 in 2019, due to differences between original estimates and final settlements or revised estimates.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2020 and 2019, were approximately \$320,000 and \$76,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2020 and 2019.

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**9. CARES Act Provider Relief Fund:**

The District received \$4,485,263 of funding from the CARES Act Provider Relief Fund. These funds are required to be used to reimburse the District for healthcare-related expenses or lost revenues that are attributable to coronavirus. The District has recorded these funds as unearned grant revenue until eligible expenses or lost revenues are recognized. During the year ended December 31, 2020, the District recognized \$3,711,316 of grant revenue from these funds. The District had \$773,947 remaining funds as of December 31, 2020, to use for healthcare-related expenses or lost revenues that are attributable to coronavirus in the next fiscal year.

**10. Property Taxes:**

The Lewis County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on January 1 on property values assessed as of the prior January 1 and are intended to finance the District’s activities of the same calendar year. Assessed values are established by the Lewis County Assessor at 100 percent of fair market values. A revaluation of all property is required every four years.

Taxes are due in two equal amounts by April 30 and October 31. The assessed property is subject to lien on the levy date and taxes are considered delinquent after October 31. Collections are distributed monthly to the District by the County Treasurer.

The District is permitted by law to levy up to \$0.75 per \$1,000 of assessed valuation for general District purposes. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the residents of Lewis County.

Taxes estimated to be collectible are recorded as revenue in the year of the levy. Taxes levied for operations are recorded as nonoperating revenue. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

The District’s tax levies are comprised of the following:

<b>2020</b>				
	<b>Levy Rate</b>	<b>Assessed Value</b>		<b>Total Levy Amount</b>
		<b>Real and Personal</b>	<b>Timber</b>	
Bond	0.4581	\$ 1,259,765,626	\$ 524,793,194	\$ <b>811,641</b>
Maintenance and operation	0.4770	\$ 1,278,829,276	\$ -	\$ <b>610,027</b>
<b>2019</b>				
	<b>Levy Rate</b>	<b>Assessed Value</b>		<b>Total Levy Amount</b>
		<b>Real and Personal</b>	<b>Timber</b>	
Bond	0.5492	\$ 1,117,672,972	\$ 345,602,330	\$ <b>803,605</b>
Maintenance and operation	0.5313	\$ 1,136,449,329	\$ -	\$ <b>603,742</b>

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**11. Risk Management and Contingencies:**

***Risk management*** – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and 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 commercial coverage in any of the three preceding years.

***Medical malpractice claims*** – The District has professional liability insurance coverage with Physicians Insurance. The policy provides protection on a “claims-made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the District purchases insurance to cover prior acts. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$5,000,000. The policy has no deductible per claim.

The District also has excess professional liability insurance with Physicians Insurance on a “claims-made” basis. The excess malpractice insurance provides \$4,000,000 per claim of primary coverage with an aggregate limit of \$4,000,000. The policy has no deductible per claim.

No liability has been accrued for future coverage for acts, if any, occurring in this or prior years. Also, it is possible that claims exceed coverage available in any given year.

***Self-insurance risk pools*** – The District has a self-insured unemployment plan for its employees. The District participates in the Public Hospital District Unemployment Trust, which is a risk transfer pool administered by the Washington State Hospital Association. The District recognized a \$0 and \$60,631 dividend from the Public Hospital District Unemployment Compensation Trust in 2020 and 2019, respectively, which was offset against unemployment expense. Payments by the District charged to unemployment expense prior to the dividend were approximately \$53,000 and \$60,000 in 2020 and 2019, respectively.

***Industry regulations*** – The healthcare 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, accreditations, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, 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.

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**12. Medical Self-Insurance Plan:**

The District partially self-insures the cost of employee healthcare benefits. The District self-insures the first \$80,000 in claims per eligible participant. The District also purchases annual stop-loss insurance coverage for all claims in excess of \$80,000 per participant. Accrued compensation and related liabilities on the statements of net position include an accrual for claims that have been incurred but not reported. Claim liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors.

Changes in the District’s incurred but not reported liability are as follows:

	<b>2020</b>	<b>2019</b>
Claim liability, beginning of year	\$ 70,000	\$ 69,141
Current year claims and changes in estimates	2,111,945	1,336,201
Claims payments	(2,014,091)	(1,335,342)
<b>Claim liability, end of year</b>	<b>\$ 167,854</b>	<b>\$ 70,000</b>

**13. Concentration of Risks:**

***Patient accounts receivable*** – The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Lewis County.

The mix of receivables from patients was as follows:

	<b>2020</b>	<b>2019</b>
Medicare	44 %	49 %
Medicaid	13	16
Other third-party payors	36	28
Patients	7	7
	<b>100 %</b>	<b>100 %</b>

***Physicians*** – The District is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on hospital operations.

***Collective bargaining units*** – Effective July 1, 2018, the District renewed its contract with Carpenters’ Industrial Council Local Union No. 2767. Approximately 45 percent of the District’s employees are represented by the labor union under this collective bargaining agreement. The contract is effective through June 30, 2020. The contract was extended through June 30, 2021.

Effective July 8, 2019, the District renewed its contracts with Washington State Nurses Association for registered nurses and licensed practical nurses. Approximately 12 percent of the District’s employees are represented by the labor union under these collective bargaining agreements. The contracts are effective through March 31, 2022.

**Lewis County Public Hospital District No. 1**  
**doing business as Arbor Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2020 and 2019**

**14. COVID-19 Pandemic:**

The COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. Beginning in March 2020, the District began experiencing significant declines in revenues due to the state of Washington temporarily suspending all elective surgeries and other elective procedures. In addition, the District has experienced declines in volumes of outpatient and ancillary services, such as radiology, laboratory, rehabilitation, respiratory, pulmonary, and clinic visits.

The District received government grants as described in Note 9 above, as part of the federal government's response to the pandemic.

Medicare sequestration has been suspended from May 1, 2020 through December 31, 2021, which will increase Medicare reimbursement by 2 percent.

The District also entered into the PPP loan described in Note 7 above, also a part of the federal government's response to the pandemic.

The District also received Medicare accelerated payments of \$5,321,833 in April 2020. The Medicare accelerated payments will begin to be repaid within 1 year of issuance.

In addition to accepting funding from the CARES Act Provider Relief Fund and the other funding sources noted above, the District resumed the services that had been temporarily suspended. However, the pandemic continues to affect the District's operations. The ultimate COVID-19 pandemic effect on the District's financial position is unknown at this time.

**15. Subsequent Event**

The District incurred a capital lease obligation subsequent to year end for operating room equipment. The capital lease obligation is \$542,530 with a 44-month term and a \$13,307 monthly payment.



DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

INDEPENDENT AUDITORS' 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  
Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Morton, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lewis County Public Hospital District No. 1 doing business as Arbor Health (the District) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated May 5, 2021.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
May 5, 2021

**Lewis County Public Hospital District No. 1  
doing business as Arbor Health  
Summary Schedule of Prior Year Audit Findings  
Year Ended December 31, 2020**

The audit for the year ended December 31, 2019, reported no audit findings, nor were there any unresolved findings from the periods ended December 31, 2018, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2020.